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1931

Application of accounting principles to a  
course in accounting for small contractors



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BOSTON UNIVERSITY  
SCHOOL OF EDUCATION

Thesis

APPLICATION OF ACCOUNTING PRINCIPLES  
TO A COURSE IN  
ACCOUNTING FOR SMALL CONTRACTORS

Submitted by

Charles Hanlon Welch  
(B.B.A. Boston University 1923)

In partial fulfillment of requirements  
for the degree of Master of Education.

1930

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School of Education  
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JOHN DEWEY  
UNION OF AMERICA

1890

AT THE ANNUAL MEETING OF THE

UNION OF AMERICA

Held at the Hotel...

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1890



## PREFACE

About three years ago I was asked to prepare a course for the students of the Builders' School of Hampton Institute to meet the accounting needs for a small contractor. The course name was to be Accounting for Builders. Previous to this time those of the Builders' School who cared to take a course in accounting studied the same course that was given to the students of the Business School. Although this gave them a good first year study of Accounting, it did not touch those special subjects of particular interest to the small Builder. The usual text book in bookkeeping or accounting uses a mercantile establishment for its illustrations and practice materials. This did not help to create much interest for those students who were particularly interested in finding the costs of their Jobs or solving other problems peculiar to the Builder.

A search for a text book to meet the needs of this particular group did not bring forth what we needed. Several books have been published on the subject "Accounting for Contractors", but they seemed to be lacking in several requirements. First, from a pedagogical point of view it was evident that the writers, although well qualified to do the accounting work for contractors, had little or no conception as to how to present it to a



# INTRODUCTION

About three years ago I was asked to prepare a course for the students of the Miller School of Hampton Institute to meet the accounting needs for a small contractor. The course was to be designed for the students. Previous to this time those of the Miller School who were to take a course in accounting had studied the same course that was given to the students of the Spaulding School. Although this gave them a good first year study of accounting, it did not touch those special subjects of particular interest to the small contractor. The usual text book in bookkeeping or accounting used a somewhat unsatisfactory for illustrations and practice materials. This did not help to create much interest for those students who were particularly interested in finding the uses of their hands on a living other problems peculiar to the contractor. A search for a text book to meet the needs of this special class group did not bring forth what was needed. Several books have been published on the subject "Accounting for Contractors", but they seemed to be lacking in several respects. First, from a pedagogical point of view it was evident that the writers, although well qualified to do the accounting work for contractors, had little or no conception as to how to present it to a



student. Second, the authors prepared the books apparently expecting that the reader was well versed in accounting. It seemed to me that anyone able to follow the authors of these books would not be the ones who would be interested in studying an elementary course in Accounting for Builders.

My third criticism of the material available was that most of the systems presented were much too complicated. Simplicity should be the aim in a system of accounts and records prepared for a small builder. He has trained himself as a mechanic, not as an expert accountant, and this should be kept in mind continually.

The same criticism that I make of the books that are available, likewise applies to various articles that have appeared from time to time in trade journals.

Much of the material contained in this thesis has been used at Hampton Institute during the past year in my accounting classes for Builders. The problem and practice material that has been used with this class is not made a part of this thesis.



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## CHAPTER I

### THE NEED OF ACCOUNTING

#### Man's Oldest Occupation now Specialized

Building of homes is one of the oldest of man's occupations. It was probably preceded only by that of obtaining food. Of course building as carried on today is remote from the procedure used many years ago, or even a few years ago. Specialization has taken place in this field as in all others. A man no longer builds his own house. He finds someone to do it for him; someone who has special training and ability in this kind of work. Nor does this man build the house from the foundation to the roof. He also searches out the specialist and assigns to him that work in which he excels. The bricklayer does the brickwork. The plasterer does his special job. The carpenter works with wood. This specialization goes further. Among the carpenters are found rough carpenters, finish carpenters, floor layers, and when the job is big enough one man does nothing for a few weeks but make holes in doors for locks.

#### Builder Has Inadequate Records

There is one phase of the work, however, in which the builder of small houses has not kept abreast of the times. That is in keeping accurate record of his operations and financial conditions. Here it is that he is indeed lacking. The discussion from here on will be directed to the general contractor who builds homes, and more particularly for the



## CHAPTER I

### THE MAN OF THE HOUSE

#### Man's Oldest Occupation as a Specialist

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benefit of the Negro Builder of the South. Progress has been made in the construction of homes, but not the greatest possible progress. This, of course, is not due to any particular reason, but outstanding among other reasons is the glaring lack of any adequate accounting practice. Builders have no accurate records of past experiences to guide them. No doubt they have lost thousands of dollars from clients because of incomplete accounts. Their credit at the banks would be decidedly greater if they could show in a clear concise and orderly manner a story of their financial condition. They can not compare their operating expenses with those of their competitors because they do not know what they are. They often wonder if they have really made a profit or a loss on a job; and if a loss, why? These and many other disadvantages occur to the Builder who is operating without adequate records. If a Builder is operating at a loss, he should stop it and begin to make a profit. If he is making a profit in spite of all these disadvantages, he should strengthen his position and make a better profit.

The old method of "no method" must go. This account keeping on the back of an old envelope is hardly better than "no method". It must go also. In its place means must be provided to show accurate and detailed costs of operations, the financial condition at any time, and how it has improved. The old must go because the new and better has come.

#### Knowing Costs

An examination of other types of production, or distribution, will show what is meant by "accurate and detailed"



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#### Showing Costs

An examination of other types of production, or distri-  
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costs". In production, which is usually carried on in factories, the management can account for every penny spent. It is not a puzzle to find out what the various expenses are. Through means of cost accounting the management knows not only the cost of the product, but also the cost of every element and operation of that product. If some part of that product is costing more than it should, this fact stands out conspicuously on the report. When excessive costs are discovered the cause is quickly determined, and means taken to eliminate that cause. This is exactly what a builder should do. He should find out the cost of not only the whole product - the house -, but also of each part of that house, and act accordingly.

Distribution is mentioned because in that field the same situation is found as in production. Certain well organized and efficient retail merchandising establishments are operating at a profit, while others are struggling along at a loss. Almost invariably those carrying on at a loss do not know why or where their losses are occurring. More often than not these losses are unknown to the proprietor until suddenly he finds himself face to face with complete failure. Then it is too late to correct the errors. His investment is gone and the only thing he can do is to work for someone else. This is exactly what is happening in every community. You will find only a few merchants in your home town who are surviving this very keen competition. Only those will remain who study and analyze their business operations. They



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will thereby discover their leaks and losses on one hand and their successful departments on the other. Having worked out their information by adequate accounting systems they can easily attack their major problem, that of keeping their costs of doing business within the amount of profit they make on sales. Unfortunately, many men discovered their errors too late. Their establishments have failed and they have lost all that they had invested in their business. This has been in retail merchandising. Will the Building business be the next to feel the effect of increased efficiency? If so, how many are prepared to meet it? It is well to remember that competition is getting keener and keener and only those who know where their profits - and losses - are being made will survive.



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## CHAPTER II

### INFORMATION DESIRED

Builders are all quite aware of the need of accounting in their business. It is not that they do not appreciate this need that prevents them from getting started. Many contractors steer away from accounting records because the cost is sometimes heavy, and often because of the intricate statements and reports that they presume necessarily go with an accounting system. These statements need not be intricate. Neither must the cost of preparing them be high, unless the Builder is looking for a great amount of detailed statistical information. Ordinarily, a Builder wants the answers to just a few questions. These questions can be condensed to six:

1. What is the Worth of the Business?
2. What does the business own?
3. Who owes the business any money or services?
4. To whom does the business owe money or services?  
(It is necessary to know the answers to questions 2,3, and 4 before a correct answer can be given to question #1,)
5. How much profit (or loss) has been made?
6. How the profit - or loss - was made?

Questions 1, 2, 3 and 4 should be considered together, The answers to them will enable a Builder to determine his financial condition at any given time.

Questions 5 and 6 should be considered jointly as they both have to do with the amount of profit. In connection with these two questions, it will be necessary to know the cost of each job because it is from the jobs that the



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- (It is necessary to have the answers to questions 1, 2, and 4 before a correct answer can be given to question 3.)
5. How much profit (or loss) has been made?
  6. How the profit - or loss - was made?

Questions 1, 2, 3 and 4 should be considered together. The answers to them will enable a builder to determine his financial condition at any given time. Questions 5 and 6 should be considered jointly as they both have to do with the amount of profit. In connection with these two questions, it will be necessary to know the cost of each job because it is from the jobs that the



profits are derived. A profit is made if the job costs less than the contract price and a loss if the cost of the job was more than the contract price. So, it is readily seen that it is essential to know the costs of the jobs if the Builder is to know the profit on each job.

While determining the cost of each job, the Builder will also find it to his advantage to be able to compare actual costs with estimated costs. If a job was finished at a loss, a comparison of estimated costs with actual costs would probably show why the loss occurred. Such information is what makes experience valuable.

Summarized, the following is the information that a Builder wants to get from his accounting records.

I. What is the business worth?

1. What is owned?
2. Who owes the business money or services?
3. To whom does the business owe money or services?

II. How much profit has been made?

1. How was it made?
  - a. The cost of each job?
  - b. The cost of each operation?

From this point on, this paper will be very definitely tied to the idea of developing statements that will furnish the answers to the above questions.

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Summarized, the following is the information that a

builder wants to get from his accounting records.

- I. What is the business worth?
  1. What is owned?
  2. Who owns the business money or services?
  3. To whom does the business owe money or services?
- II. How much profit has been made?
  1. How was it made?
    - a. The cost of each job?
    - b. The cost of each operation?

From this point on, this paper will be very definitely tied to the idea of developing statements that will furnish the answers to the above questions.



## CHAPTER III

### THE BALANCE SHEET

What is the business worth? This question is asked many times. Others ask it of the Builder, particularly his banker. If a Builder were asked what his business is worth, he probably could figure it out without any great deal of difficulty. He would sit down and reason as follows: "I have \$500.00 cash, a truck worth \$1,000.00, a house partly finished worth \$4,000.00, and various materials worth \$500.00." Now some builders might say, "The total of these things that I own is what I am worth". However, most Builders would go a step further. They would say "I own all of these things with a total value of \$6,000.00, but I am not worth that much because I owe the Bickford Lumber Company \$1,500.00 for material I have put in my house. This fact gives the Bickford Lumber Company a right in my property to the extent of \$1,500.00". They can by right of law take \$1,500.00 worth of any of his property (with certain exceptions) and are not limited to the taking of the materials which they originally owned. In addition to this debt he might owe the bank \$500.00 on account of a loan. So he reasons that although he owns various kinds of property valued at \$6,000.00, others having a right in that property to the extent of \$2,000.00, means that he is worth only \$4,000.00. At this time it might be mentioned that if other people owe him money, he likewise has a right in their property.





Now to put down the very elementary process that he used in determining that he was worth \$4,000.00.

1.	Total value of things owned	\$6,000.00 (Assets)
	Less	
2.	Other peoples' rights (or equity) in the things that he owned	\$2,000.00 (Liabilities)
3.	His worth	\$4,000.00 (Worth)

The above computation is the most important principle of accounting that will be encountered, and for that reason one must be sure to keep it always in mind. Throughout this paper it will continually be referred to; not always in the same form, but always in the same line of reasoning. Set into a sentence it means, that a business is worth the difference between what it owes and what it owns.

It is best to know the accounting terms for those things which have just been discussed.

Description	Accounting Term
1. Things that are owned.	Assets
2. Rights in things that other people own.	Assets
3. Other peoples rights in the things that the business owns.	Liabilities

Referring to above, it will be seen that things that are owned (Assets) were \$6,000.00, and other peoples' rights in the business's property (Liabilities) were \$2,000.00. From this it is seen that the difference between Assets of \$6,000.00 and Liabilities of \$2,000.00 was what the business was worth. This point is very important. The reader should be positive in his own mind that Assets minus the liabilities is the worth. It will be put in various forms so as to

Now to put down the very elementary process that he used in

determining that he was worth \$4,000.00.

1.	Total value of things owned	\$4,000.00 (Assets)
	Less	
2.	Other people's rights (or equity) in the things that he owned	\$2,000.00 (Liabilities)
3.	His worth	\$2,000.00 (Worth)

The above computation is the most important principle of accounting that will be encountered, and for that reason one must be sure to keep it always in mind. Throughout this paper it will continually be referred to; not always in the exact form, but always in the same line of reasoning. Set into a sentence it means, that a business is worth the difference between what it owns and what it owes. Now, it is best to know the accounting terms for those things which

have just been discussed.

Accounting Term	Description
Assets	1. Things that are owned.
Assets	2. Rights in things that other people own.
Liabilities	3. Other people's rights in the things that the business owns.

Referring to above, it will be seen that things that are owned (Assets) were \$4,000.00, and other people's rights in the business's property (Liabilities) were \$2,000.00. From this it is seen that the difference between Assets of \$4,000.00 and Liabilities of \$2,000.00 was what the business was worth. This point is very important. The reader should be positive in his own mind that Assets minus the Liabilities is the worth. It will be put in various forms so as to



enable the reader to more firmly impress it upon his mind. There is no principle of accounting so fundamental, or so necessary to acquire for the successful understanding of accounting.

<u>Assets</u>	(\$6,000.00)
Less <u>Liabilities</u>	(\$2,000.00)
equals Worth	(\$4,000.00)

Assets minus Liabilities - Worth

$$\$6,000.00 - \$2,000.00 = \$4,000.00$$

It does not require an unusual stretch of the imagination to see that these figures may be shifted about somewhat. That is, if

$$\$6,000.00 \text{ minus } \$2,000.00 = \$4,000.00$$

then

$$\$6,000.00 = \$4,000.00 \text{ plus } \$2,000.00$$

By changing the \$2,000.00 to the right hand side of the equation, the minus quantity is changed to a positive one. All can see that \$6,000.00 minus \$2,000.00 = \$4,000.00 and that Assets minus Liabilities equal Worth. In like manner no one has any difficulty to see that \$6,000.00 equals \$4,000.00 plus \$2,000.00 and that Assets (\$6,000.00) equal Liabilities (\$2,000.00) plus Worth (\$4,000.00).

Why all this Accounting Equation about Assets equaling Liabilities plus Worth? The answer is this: "Upon this equation is built all accounting work". Whenever a person is confronted with a difficult accounting problem, he may always refer back to the accounting equation "Assets equal Liabilities plus Worth", and he will find his problem easily solved. In the next few paragraphs this equation will be put to work so as to show "What the Business is worth".

enable the reader to more fully grasp it upon his mind. There is no principle of accounting as fundamental, or so necessary to practice for the necessary understanding of accounting.

Assets	(\$2,000.00)
Less Liabilities	(\$2,000.00)
Equal Worth	(\$4,000.00)

Assets minus Liabilities = Worth

$$\$4,000.00 = \$2,000.00 - \$2,000.00$$

It does not require an unusual stretch of the imagination to see

that these figures may be added about somewhat. That is, if

$$\$4,000.00 \text{ minus } \$2,000.00 = \$2,000.00$$

then

$$\$4,000.00 = \$2,000.00 \text{ plus } \$2,000.00$$

By changing the \$2,000.00 to the right hand side of the equation,

the minus quantity is changed to a positive one. All can see that

$$\$4,000.00 \text{ minus } \$2,000.00 = \$2,000.00 \text{ and that Assets minus Liabilities}$$

equal Worth. In this manner we can see any difficulty to see that

$$\$4,000.00 \text{ equals } \$2,000.00 \text{ plus } \$2,000.00 \text{ and that Assets } (\$4,000.00)$$

$$\text{equal Liabilities } (\$2,000.00) \text{ plus Worth } (\$4,000.00).$$

Why all this Accounting Equation about Assets equalling Liabilities

plus Worth? The answer is this: "Upon this equation is built all

accounting work". Whenever a person is confronted with a difficult

accounting problem, he may always refer back to the accounting equation

"Assets equal Liabilities plus Worth", and he will find his problem

easily solved. In the next few paragraphs this equation will be put

to work so as to show "What the Business is worth".



A statement showing what the business is worth is one of the statements that was mentioned in the previous chapter. Refer back to page 6 . Notice that the first thing asked of the records is "what is the business worth", presumably in the form of a statement. To do this we have:

- a. What does the business own?
- b. Who owes the business money or services?
- c. To whom does the business owe money or services?

Illustration:

To assume a situation and prepare a statement that will set forth the above, we have the following:

Arthur Taylor is a contractor in Durham, N.C., doing business under the name of Arthur Taylor Co., General Contractor. The business owns the following:

His Assets:

Cash		\$1,000.00
Ford Truck	value	400.00
Cement Mixer	"	400.00
A house partly finished	"	6,200.00
Miscellaneous Equipment	"	500.00
Theo. Briggs owes him (this is balance due him on a contract)		<u>1,000.00</u>
Total of his Assets are		\$9,500.00

Mr. Taylor owes the Durham National Bank \$2,000.00 on account of a loan to enable him to buy materials for his present contract. He also owes the Southern Lumber Co. \$1,000.00 for purchases of last month. His liabilities total \$3,000.00.

A statement should first be headed so that there will be no question as to its content or nature. This statement will be headed as follows:

A statement showing that the business is worth is one of the statements that was mentioned in the previous chapter. Later back to page 7. Notice that the first thing asked of the records is "what is the business worth", presumably in the form of a statement. To be this we have:

- a. What does the business own?
- b. Who owes the business money or services?
- c. To whom does the business owe money or services?

#### Illustration:

To assume a situation and prepare a statement that will set forth the above, we have the following:  
 Arthur Taylor is a contractor in Durham, N.C., doing business under the name of Arthur Taylor Co., General Contractor. The business owns the following:

Assets	Value
Cash	\$1,000.00
Trade Receivables	400.00
Contract Money	400.00
A house partly finished	8,000.00
Miscellaneous Equipment	200.00
Tools, rights owned (held in balance sheet as an asset)	1,000.00
Total of his Assets are	\$12,000.00

Mr. Taylor owns the Durham National Bank \$5,000.00 on account of a loan to enable him to buy materials for his present contract. He also owes the Southern Lumber Co. \$1,000.00 for purchases of last month. His liabilities total \$7,000.00.  
 A statement should first be made so that there will be no question as to its content or nature. This statement will be made as follows:



Arthur Taylor Company, General Builder

Statement of Financial Condition

December 31, 1929

The heading as above should show three things:

1. The name of the firm,
2. The name of the Statement,
3. The date

This statement is going to list on one side (the left) the Assets (with values) of Arthur Taylor as follows:

Arthur Taylor Company, General Builder

Statement of Financial Condition

December 31, 1929

Cash	\$1,000.00
Ford Truck	400.00
Cement Mixer	400.00
House (partly finished)	6,200.00
Miscellaneous Equipment	500.00
Theo. Briggs (owes us)	<u>1,000.00</u>
Total Assets	<u>\$ 9,500.00</u>

The first five of the above are readily seen to be Assets. The sixth is not so evident. It does, however, represent a right that Mr. Taylor has in Mr. Brigg's property. Hereafter, such an Asset will be shown by merely writing the name of the person who owes the business the money. At times the words "Accounts Receivable" will be added so as to distinguish the name from others that represent





amounts that the business owe. These will be labeled "Accounts Payable".

First the heading was written. Next the Assets were listed. The next step is to list those that the business owe - Liabilities. Up to this point, the statement has the following form:

Heading

Assets

The Assets are on the left. The Liabilities will be listed on the right as follows:

Arthur Taylor Company, General Builder

Statement of Financial Condition

December 31, 1929.

Durham National Bank	\$ 2,000.00
Southern Lumber Co.	<u>1,000.00</u>
Total Liabilities	\$ 3,000.00

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Why are the Assets on the left and the Liabilities on the right? They were not placed in those positions without a reason. What we have will now be put together and perhaps it may be seen why in this statement the Assets are put on the left and the Liabilities on the right. To help think out the answer, it is suggested that the reader refer back to page 9 and note the equation: Assets equal Liabilities plus Worth. Note the relative position in the equation of the Assets and Liabilities.

The statement to this point:

Arthur Taylor Company, General Contractor  
Statement of Financial Condition  
December 31, 1929

Assets		Liabilities	
Cash	\$1,000.00	Durham Natl. Bank	\$
Ford Truck	400.00	(Note Payable)	2,000.00
House in construction	6,200.00	Southern Lumber Co.	
Misc. Equipment	500.00	(Account Payable)	<u>1,000.00</u>
Theo. Briggs (Accounts Receivable)	1,000.00	Total Liabilities	\$3,000.00
Cement Mixer	<u>400.00</u>		
Total Assets	<u>9,500.00</u>		

There is a resemblance between the above and the fundamental equation.

Assets       =       Liabilities plus Worth.

In the equation assets appear on the left, and merely to be consistent, the assets are placed on the left of the statement. There is absolutely no reason why the order could not be reversed, but as present accounting practice has accepted the left side for the assets, others of course will do likewise.

Similarly, Liabilities appear on the right of the accepted form of the equation  $A = L \text{ plus } W$ , and so to be consistent and in conformity with authorities on accounting, it is best to fall in line and show Liabilities on the right hand side of the statement.

Why are the Assets on the left and the Liabilities on the right? They were not placed in those positions without a reason. What we have will now be put right and perhaps it may be seen why in this manner. Now the Assets are put on the left and the Liabilities on the right. To help take out the answer, it is suggested that the reader refer back to page 7 and note the equation: Assets equals Liabilities plus Work. Note the relative position in the equation of the Assets and Liabilities.

The statement is this:

Arthur Tappan Company, General Contractor  
 Statement of Financial Position  
 December 31, 1932

Assets		Liabilities	
Cash	\$1,000.00	Bank	\$1,000.00
Trade Receivables	400.00	(Note Payable)	400.00
Notes in connection	2,400.00	Payable to Bank	2,400.00
Notes, Equipment	800.00	(Payable to Bank)	1,600.00
Trade Payables (Accounts)			
Notes Payable	1,600.00	Total Liabilities	\$4,400.00
Current Assets	400.00		
Total Assets	\$4,400.00		

There is a relationship between the above and the fundamental equation:

Assets = Liabilities plus Work.

In the equation assets appear on the left, and merely to be consistent, the assets are placed on the left of the statement. There is absolutely no reason why the order could not be reversed, but as present accounting practice has accepted the left side for the assets, others of course will do likewise.

Similarly, Liabilities appear on the right of the accepted form of the equation  $A = L + W$ , and so to be consistent and in conformity with authorities on accounting, it is best to put in line and show Liabilities on the right hand side of the statement.



There is one thing, however, which appears in the equation (A - L plus W) which, in the above statement is not seen. Before reading the next paragraph see for yourself what is missing in the statement.

As most of you probably discovered, the statement as yet does not show that which it primarily was devised to show. That is, "What the Business is Worth". It does show the two elements necessary for the computation of the worth, and by applying the principle of the equation, one readily finds out what Arthur Taylor is worth. This is figured as follows:

Subtract the sum of the Liabilities (\$3,000.00) from the sum of the Assets (\$9,500.00)

\$9,500.00	(Assets)
- <u>3,000.00</u>	- <u>(Liabilities)</u>
\$6,500.00	(Worth)

\$6,500.00 is what Arthur Taylor is worth,

In the original equation this would appear thus:

Assets minus Liabilities equal Worth.  
 $\$9,500.00 - \$3,000.00 = \$6,500.00$

The equation is shown, but not the complete statement of financial condition of Arthur Taylor for December 31, 1929. The statement was shown complete on page 13 excepting that the final figure (worth was not arrived at. As shown on page 13 it was:

Arthur Taylor Company, General Contractor  
 Statement of Financial Condition  
 December 31, 1929

Assets	\$9,500.00	:	Liabilities	\$3,000.00
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Completed it should show:

There is one thing, however, which appears in the equation

(A = 1 plus W) which in the above statement is not seen. Before read-

ing the next paragraph see for yourself what is missing in the statement.

As most of you probably discovered, the statement as yet does not

show what which it ultimately was devised to show. That is, "What the

Business is Worth". It does show the two elements necessary for the

computation of the worth, and by applying the principle of the equation,

one readily finds out what Arthur Taylor is worth. This is shown as

follows:

Subtract the sum of the Liabilities (\$2,000.00) from the sum of the

Assets (\$2,800.00)

Assets	\$2,800.00
- Liabilities	- 2,000.00
(Worth)	\$800.00

\$800.00 is what Arthur Taylor is worth.

In the original equation this would appear thus:

Assets minus Liabilities equal Worth.  
 $\$2,800.00 - \$2,000.00 = \$800.00$

The equation is shown, but not the complete statement of financial

condition of Arthur Taylor for December 31, 1922. The statement was

shown complete on page 22 excepting that the final figure (worth) was not

carried at. As shown on page 12 it was:

Arthur Taylor Company, General Ledger  
Statement of Financial Condition  
December 31, 1922

Assets	\$2,800.00	Liabilities	\$2,000.00
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Completed it should read:



Arthur Taylor Company, General Contractor  
Statement of Financial Condition  
December 31, 1929.

Assets	\$9,500.00	Liabilities	\$3,000.00
		Worth	<u>6,500.00</u>
Total	\$9,500.00	Total	\$9,500.00

Note that left side of the statement is equal to the right side.

From the preceeding pages it is concluded that the following is a correct statement of Financial Condition of Arthur Taylor, General Contractor, Durham, N.C. on December 31, 1929.

Arthur Taylor Company, General Contractor  
Durham, N.C.  
Statement of Financial Condition  
December 31, 1929

Assets		Liabilities and Worth	
Cash	\$1,000.00	<u>Liabilities</u>	
Ford Truck	400.00		
Cement Mixer	400.00	Durham National Bank	
House in construction	6,200.00	(Note Payable)	\$2,000.00
Misc. Equipment	500.00	Southern Lumber Co.	
Theo. Briggs (Accounts Rec.)	1,000.00	(Account Payable)	1,000.00
		Total Liabilities	<u>\$3,000.00</u>
		Worth	<u>6,500.00</u>
Total Assets	\$9,500.00	Total Liab. & Worth	\$9,500.00

Note: In all of this work it must be understood that there is a difference between Arthur Taylor as a private individual and Arthur Taylor Company, General Contractor. Mr. Taylor may be worth a million dollars in other business enterprises, but that is not shown on the books of the Arthur Taylor Company. The statement of the Financial Condition showed a Worth of \$6,500.00. This is the value of the business and any personal assets or personal liabilities of Mr. Taylor are not to be considered or shown on the books of the Arthur Taylor Company.

Arthur Taylor Company, General Corporation  
Statement of Financial Condition  
December 31, 1933

Assets	\$2,500.00	Liabilities	\$2,500.00
		Worth	2,500.00
Total	\$2,500.00	Total	\$2,500.00

Note: Last item of the statement is added to the right side.  
From the preceding page, it is concluded that the following is a  
correct statement of financial condition of Arthur Taylor, General Corporation,  
Boston, U.S.A. on December 31, 1933.

Arthur Taylor Company, General Corporation  
Statement of Financial Condition  
December 31, 1933

Assets		Liabilities and Worth	
Cash	\$2,500.00	Liabilities	\$2,500.00
Fixed Assets	100.00		
General Motor	400.00	Payable National Bank	400.00
Wages in arrears	1,200.00	(Note payable)	1,200.00
Miss. Expense	300.00	Payable United S.	300.00
Thos. Bridge (Accounts Rec.)	1,000.00	(Accounts payable)	1,000.00
		Total Liabilities	2,500.00
		Worth	2,500.00
Total Assets	\$2,500.00	Total Liab. & Worth	\$2,500.00

Note: In all of the work it must be understood that there is a  
difference between Arthur Taylor as a private individual and Arthur Taylor  
Company, General Corporation. Mr. Taylor may be worth a million dollars in  
other business enterprises, but that is not shown on the books of the  
Arthur Taylor Company. The statement of the financial condition shows a  
worth of \$2,500.00. This is the value of the business and the personal  
assets or personal liabilities of Mr. Taylor are not to be considered or  
shown on the books of the Arthur Taylor Company.



## CHAPTER IV

### THE BALANCE SHEET (Cont.)

The preceding chapter has shown the form of a statement of Financial Condition, It shows three things.

- (a) What the business owns.
- (b) What the business owes.
- (c) What the business is worth.

It shows the above as of a particular date. A statement of this sort is very often called a Balance Sheet. Presumably this name has come about because the statement "Balances". This is, the left side is equal to the right side; and like a pair of balance scales when equal weights are on each side, the statement is in balance. So hereafter when the term Balance Sheet is used it will mean that type of statement explained in the previous chapter. Another thing to notice in this Balance Sheet (Statement of Financial Condition) is that it is for a specific date. Later on in this book there will be statements that will cover a period of time, but the Balance Sheet is always a statement of the financial condition on a given date.

#### Balance Sheet Items Continually Changing

With that in mind it is very evident that a Balance Sheet prepared today does not set forth the financial condition tomorrow. The purchase of an asset adds to those things that are owned. This new asset may be paid for by cash and in such an event the asset "Cash" is decreased. An asset may be purchased without the payment of cash, for example: tools bought on credit. Such a case would increase those things that are owned (Assets) but would also increase what is owed (Liabilities).

## CHAPTER IV

### THE BALANCE SHEET (Cont.)

The preceding chapter has shown the form of a statement of financial

Condition. It shows three things.

- (a) What the business owns.
- (b) What the business owes.
- (c) What the business is worth.

It shows the above as of a particular date. A statement of this sort is

very often called a Balance Sheet. Formerly this name was given about

because the statement "balances". This is, the left side is equal to

the right side; and like a pair of balance scales when equal weights are

on each side, the statement is in balance. So hereafter when the term

Balance Sheet is used it will mean that type of statement explained in

the previous chapter. Another thing to notice in this Balance Sheet

(Statement of Financial Condition) is that it is for a specific date.

Later on in this book there will be statements that will cover a period

of time, but the Balance Sheet is always a statement of the financial con-

dition on a given date.

#### Balance Sheet Illustration

With that in mind it is very evident that a Balance Sheet is a snapshot

today does not tell the financial condition tomorrow. The purpose

of an asset side to those things that are owned. This new asset may be

paid for by cash and in such an event the asset "Cash" is decreased. In

asset may be purchased without the payment of cash, for example: tools

bought on credit. Such a case would increase those things that are owned

(Assets), but would also increase what is owed (Liabilities).



## Transactions Have Double Effect

Every business transaction affects more than one of the elements in the Balance Sheet. This is so in any situation that can arise. There is no possible situation which will result in a change of but one element of the Balance Sheet.

If the business increases any asset it is always reflected by one or more of the following:

- (a) decrease of another asset,
- (b) increase of a liability, or
- (c) increase in worth.

A decrease in any asset is always reflected by one or more of the following:

- (a) increase in another asset,
- (b) decrease in a liability, or
- (c) decrease in worth.

An increase in any of the liabilities is always reflected by one or more of the following:

- (a) decrease in another liability,
- (b) increase in some asset, or
- (c) decrease in Worth.

A decrease in any of the liabilities is always reflected by one or more of the following:

- (a) increase in some other liability,
- (b) decrease in some asset, or
- (c) increase in worth.

Some illustrations may serve to show this more clearly. The business of Arthur Taylor will be used as shown on page 15 so as to have specific figures in the illustrations.

Assume that he acquires some office furniture valued at \$300.00. This would have been obtained by purchase, either for cash or on credit; or it might have been contributed by Mr. Taylor as additional investment in this business. If purchased for cash the increase in the new asset- Office Equipment- would be shown and a corresponding decrease in Cash.



Transactions Have Double Effect

Every business transaction affects more than one of the elements in the Balance Sheet. This is so in any situation that can arise. There is no possible situation which will result in a change of but one element of the Balance Sheet.

It is always true that if an asset is always reflected by one or

more of the following:

- (a) decrease of another asset,
- (b) increase of a liability, or
- (c) increase in worth.

A decrease in any asset is always reflected by one or more of the

following:

- (a) increase in another asset,
- (b) decrease in a liability, or
- (c) decrease in worth.

An increase in any of the liabilities is always reflected by one or

more of the following:

- (a) decrease in another liability,
- (b) increase in some asset, or
- (c) decrease in worth.

A decrease in any of the liabilities is always reflected by one or

more of the following:

- (a) increase in some other liability,
- (b) decrease in some asset, or
- (c) increase in worth.

Some illustrations may serve to show this more clearly. The first-

case of Arthur Taylor will be used as shown on page 15 as an example

specific figures in the illustrations.

Assume that he requires some office furniture valued at \$200.00.

This would have been obtained by purchase, either for cash or on credit;

or it might have been contributed by Mr. Taylor as additional investment

in this business. If purchased for cash the increase in the new asset-

Office Equipment- would be shown and a corresponding decrease in Cash.



Assets	Before the Purchase	After the Purchase
Cash	\$ 1,000.	* \$ 700.
Truck	400.	400.
Cement Mixer	400.	400.
House in Construction	6,200.	6,200.
Misc. Equipment	500.	500.
Theo. Briggs	1,000.	1,000.
Office Equipment		* 300.
	<u>\$ 9,500.</u>	<u>\$ 9,500.</u>

The illustration is of the situation where an asset has been increased and offset by the decrease of another asset.

\* Asset- Office Equipment increased \$300.  
 \* " Cash decreased \$300.

In equation form it might be shown as follows:

Assets				Liabilities + Worth
\$9,500.	+ \$300.	- \$300.	=	\$3,000. + \$6,500.
	Equip.	Cash		
<hr/>			<hr/>	
\$9,500.			\$9,500.	

The next illustration is of the same purchase excepting that the equipment was purchased from Scanlon Furniture Co., without any cash payment. The terms stated that the amount was to be paid in thirty days.

In this case the assets would now appear as follows:

Cash	\$1,000.
Truck	400.
Cement Mixer	400.
House in Construction	6,200.
Misc. Equipment	500.
Theo. Briggs	1,000.
Office Equipment	<u>300.</u>
Total Assets	<u>\$ 9,800.</u>

As can be seen, the assets have been increased from \$9,500. to \$9,800. The liabilities have also been increased a like amount as the business owes the Scanlon Furniture Co. \$300. making the total liabilities \$3,300. The worth of the business remains the same.

Assets	Before the Purchase	After the Purchase
Cash	\$ 1,000.	* \$ 700.
Truck	400.	400.
General Office	400.	400.
House in Construction	2,200.	2,200.
Auto. Equipment	800.	800.
Tools, Etc.	1,000.	1,000.
Office Equipment	2,500.	* 2,500.

The illustration is of the situation where an asset has been in-  
creased and offset by the decrease of another asset.  
\* Assets - Office Equipment increased \$200.  
\* Cash decreased \$200.

In equation form it might be shown as follows:

Assets	=	Liabilities + Worth
\$2,500. + \$200. =		\$2,500. + \$200.
Cash		
Office Equip.		
\$2,500.	=	\$2,500.

The next illustration is of the same purchase excepting that the  
equipment was purchased from Boston Furniture Co., without any cash  
payment. The terms stated that the amount was to be paid in thirty days.  
In this case the assets would now appear as follows:

Cash	\$1,000.
Truck	400.
General Office	400.
House in Construction	2,200.
Auto. Equipment	800.
Tools, Etc.	1,000.
Office Equipment	2,500.
Total Assets	\$9,300.

As can be seen, the assets have been increased from \$8,800. to  
\$9,300. The liabilities have also been increased a like amount as the  
business owes the Boston Furniture Co. \$500. making the total liability  
\$9,300. The worth of the business remains the same.



The increase in asset, Office Equipment, has been offset by the increased liability of \$300. The equation would now be:

Assets	=	Liabilities	+	Worth
\$9,500. + \$300 Equip.	=	\$3,000 + \$300	+	\$6,500 Scanlon Co.

Assume the same purchase with the following terms: \$200 cash payment and the balance (\$100) due in thirty days.

Assets	Before the Purchase	After the Purchase	
Cash	\$1,000.	\$ 800.	(Decrease \$200)
Other Assets	8,500.	8,500.	
Office Equipment	--	300.	(Increase \$300)
Total Assets	\$ 9,500.	\$ 9,600.	Increase \$100

The above shows a net increase of \$100.

The liabilities are of course increased \$100; the amount due the Scanlon Furniture Co. Shown in equation form:

Assets	=	Liabilities	+	Worth
\$9,500 + \$300 - \$200 Equip. Cash	=	\$6,500 + \$100	+	\$3,000 Scanlon
\$9,600	=	\$9,600		

It is seen that the equation is still in balance after showing the effect of the business transactions. The assets of \$9,600 are equal to Liabilities plus the worth of the business.

One more illustration of the same Office Equipment. Suppose that instead of being purchased it was received as an additional investment from Mr. Taylor. The assets would be increased from the original \$9,500 to \$9,800. No change occurs in the liabilities.

The assets are	\$9,800
The liabilities are still	\$3,000

The difference is the Worth of the business \$6,800

The increase in asset, Office Equipment, has been offset by the

increased liability of \$300. The equation would now be:

$$\begin{array}{rcl} \text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\ \$2,000 + \$300 & = & \$2,000 + \$300 + \$300 \end{array}$$

Assume the same purchase with the following terms: \$200 cash pay-

ment and the balance (\$100) due in thirty days.

Assets	Before the Purchase	After the Purchase
Cash	\$1,000	\$800
Office Equipment	\$2,000	\$2,100
Total Assets	\$3,000	\$2,900
		Liabilities (\$100)
		Owner's Equity (\$2,800)

The above shows a net increase of \$100.

The liabilities are of course increased \$100; the amount due the

$$\begin{array}{rcl} \text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\ \$2,900 + \$100 & = & \$2,900 + \$100 + \$200 \end{array}$$

It is seen that the equation is still in balance after showing the effect

of the business transactions. The assets of \$3,000 are equal to liabilities

plus the worth of the business.

One more illustration of the same Office Equipment. Suppose that

instead of being purchased it was received as an additional investment

from Mr. Taylor. The assets would be increased from the original \$3,000

$$\begin{array}{rcl} \text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\ \$3,000 + \$300 & = & \$3,000 + \$300 + \$300 \end{array}$$

The difference is the worth of the business \$3,000



The equation has been changed so as to read as follows:

Assets	=	Liabilities	+	Worth
\$9,500 + \$300	=	\$3,000	+	\$6,500 + \$300
<u>Equip.</u>				<u>\$6,800</u>
\$9,800	=			\$9,800

In this last illustration the worth of the business has increased \$300 on account of an additional investment of that amount by the proprietor, Mr. Arthur Taylor. This investment is often referred to as the proprietor's equity in the business. The proprietor's equity in a business is of course exactly equivalent to the worth or value of the business.

The point that is being made is that every business transaction will affect two or more of the elements of the Balance Sheet. This being established as a fact one can readily see that the Balance Sheet is in a continuous state of change. Every business transaction requires that two or more changes be made on the Balance Sheet in order that it will be a correct statement of the financial condition of the business. It is possible for a firm, if it has but very few transactions, to record these transactions directly on the Balance Sheet. This would be accomplished by changing the names of the assets or liabilities and their accompanying figures after each business transaction. If, as a result of the transaction, the worth of the business increased or decreased, this also would be shown by changing the figures showing the Worth of the business.

A few transactions for the firm of Arthur Taylor Co. will illustrate how this could be accomplished.

The equation has been changed so as to read as follows:

Assets	=	Liabilities	+ Worth
\$2,500 - \$250	=	\$2,500	+ \$250 - \$250
\$2,250	=		\$2,250
\$2,500	=	\$2,500	

In this last illustration the worth of the business has increased \$250 as a result of an additional investment of that amount by the proprietor, Mr. Arthur Taylor. This investment is often referred to as the proprietor's equity in the business. The proprietor's equity in a business is of course exactly equivalent to the worth or value of the business. The point that is being made is that every business transaction will affect two or more of the elements of the Balance Sheet. This being explained as a fact and not merely as a rule, the Balance Sheet is in a constant state of change. Every business transaction requires that two or more changes be made on the Balance Sheet in order that it will be a correct statement of the financial condition of the business. It is possible for a time, it is true, but very few transactions, to record these transactions directly on the Balance Sheet. This would be accomplished by changing the names of the assets or liabilities and their corresponding figures after each business transaction. It is a result of the transaction, the worth of the business increased or decreased, this also would be shown by changing the figure showing the worth of the business. A few transactions for the firm of Arthur Taylor Co. will illustrate how this could be accomplished.



First: His Balance Sheet as of December 31, 1929.

Arthur Taylor Company  
Balance Sheet  
December 31, 1929

<u>Assets</u>		<u>Liabilities &amp; Worth</u>	
Cash	\$1,000. 00	Note Payable	\$2,000.00
		(Durham National Bank)	
Truck	400.00	Account Payable	1,000.00
Cement Mixer	400.00	(Southern Lumber Co.)	_____
House in Construction	6,200.00	Total Liabilities	3,000.00
Misc. Equipment	500.00	Worth	6,500.00
Theodore Briggs	<u>1,000.00</u>		_____
<u>Total Assets</u>	<u>9,500.00</u>	<u>Total Liabilities &amp; Worth</u>	<u>9,500.00</u>
	=====		=====

First: His balance sheet as of December 31, 1935.

Arthur Edgar Gregory  
Balance Sheet  
December 31, 1935

<u>Assets</u>		<u>Liabilities &amp; Net Worth</u>	
Cash	\$1,000.00	Notes Payable	\$2,000.00
Trade	500.00	(Southern National Bank)	
Current Liab.	400.00	Account Payable	1,000.00
House in Construction	8,000.00	(Southern Trust Co.)	
Misc. Equipment	800.00	Total Liabilities	3,000.00
Telephone Expense	1,000.00	Net Worth	5,000.00
<u>Total Assets</u>	<u>10,000.00</u>	<u>Total Liabilities &amp; Net Worth</u>	<u>10,000.00</u>



The following transactions took place during January 1930.

January 11, 1930	Paid his carpenter \$40 for Labor on Job #1.
" 14,	Paid for materials used on Job #1 \$150.
" 20,	Paid Durham National Bank \$60 for interest on their loan.
" 21,	The Southern Lumber Co. asks the business to pay them something on account. \$100 is sent to them and a promise made to pay the balance on Jan.30.
" 28,	Mr. Taylor makes an additional investment of \$1,500.
" 30,	The balance due the Southern Lumber Co. is paid.
" 30,	Paid \$25.00 cash for repairing truck.
" 30,	Mr. Briggs pays \$600, leaving a balance due of \$400.
" 30,	Carpenters are paid \$160 for work on Job #1.
" 31,	Telephone bill of \$16 is paid.

The next step is to make corrections on the Balance Sheet to show changed conditions on account of each business transaction. Plenty of space must be allowed between the names of each asset so as to avoid crowding.

The aim will be to make a Balance Sheet as of the date January 31, 1930. This Balance Sheet of Arthur Taylor Co., as it would look after all transactions for January are recorded is shown on page 28 . Each transaction will be considered separately and the recording of the change of any element in the Balance Sheet will be noted. Particular attention is called to the fact that every transaction requires at least two changes. (This is the source of the expression "Double Entry Bookkeeping".)

The following transactions took place during January 1935.

January 11, 1935	Paid his expenses \$40 for labor on Job A.	11
" 14	Paid for materials used on Job A \$150.	14
" 20	Paid Duane National Bank \$50 for interest on their loan.	20
" 21	The Southern Lumber Co. asks the business to pay their account on account. \$100 is sent to them and a promise made to pay the balance on Jan. 30.	21
" 25	Mr. Taylor makes an additional investment of \$1,000.	25
" 30	The balance due the Southern Lumber Co. is paid.	30
" 30	Paid \$30.00 cash for repairing truck.	30
" 30	Mr. Smith pays \$500, leaving a balance due of \$100.	30
" 30	Carpeting is paid \$150 for work on Job A.	30
" 31	Telephone bill of \$15 is paid.	31

The next step is to make corrections on the Balance Sheet to show changed conditions on account of each business transaction. Kindly of space must be allowed between the names of each asset so as to avoid crowding.

The aim will be to make a Balance Sheet as of the date January 31, 1935. This Balance Sheet of Arthur Taylor Co., as it would look after all transactions for January are recorded is shown on page 25. Each transaction will be considered separately and the recording of the change of any asset in the Balance Sheet will be noted. Particular attention is called to the fact that every transaction requires at least two changes. (This is the source of the expression "Double Entry Bookkeeping".)



January 11	Cash was <u>decreased</u> thus	\$1,000 960 ( <del>-\$40</del> )
	House in Construction <u>increased</u>	6,200 6,240 ( <del>+\$40</del> )
	One asset decreased \$40.00	
	One asset increased \$40.00	
	No change in total of Assets	
	No change in Worth of the business	
January 14,	Cash was decreased	960 810 ( <del>-\$150</del> )
	House in Construction increased	6,240 6,390 ( <del>+\$150</del> )

Similar to Jan. 11 transaction.  
Both labor and materials put into a job increase the cost and value of that asset by the amount expended. This should not be overlooked when the builder himself does not draw a regular wage. The job should show the increased value. This will be further discussed later.

January 20,	Decrease Cash	\$ 810 750
	Decrease Worth	6,500 6,440

Not much question will arise over decreasing cash to \$750 as that is very apparent. Decreasing Worth to \$6,440 will however cause some comment. The easiest explanation of this is to go back to the original discussion of determining the amount of a business and what it was worth. The business is worth the difference between the assets and the liabilities. After the cash was decreased from \$810 to \$750, note that the total assets were then \$9440. (This is the first transaction that caused any change in the amount of the total assets.) The liabilities still remain \$3,000. The difference between Assets (\$9,440) and Liabilities (\$3,000) is \$6,440, the Worth of the Business. In recording this, one need not reason so far around the subject. The reader will soon become acquainted with the fact that if a business parts with some of its assets and does not get

January 11 Cash was decreased from \$1,000 to \$0

House in Construction increased from \$0 to \$1,000

One asset decreased \$1,000  
One asset increased \$1,000

No change in total of assets

No change in Worth of the business

January 12 Cash was decreased from \$0 to \$0

House in Construction increased from \$0 to \$0

Neither to Jan. 11 transaction.  
Both labor and materials are a job increase the cost and value of that asset by the amount expended. This should not be overlooked when the balance sheet does not show a regular wage. The job should show the increased value. This will be further discussed later.

January 20 Decrease Cash \$100

Decrease Worth \$100

Not much question will arise over decreasing cash to \$750 as that is very apparent. Decreasing Worth to \$6,440 will however cause some comment. The easiest explanation of this is to go back to the original discussion of determining the amount of a business and what it was worth. The business is worth the difference between the assets and the liabilities. After the cash was decreased from \$810 to \$750, note that the total assets were then \$3440. (This is the first transaction that caused any change in the amount of the total assets.) The liabilities still remain \$3,000. The difference between Assets (\$3,440) and Liabilities (\$3,000) is \$440. In recording this, one need not record to the Worth of the business. The number will soon become acquainted with the fact that if a business parts with some of its assets and does not



another in return, or decrease a liability by the same amount, that naturally it will be worth less. This is a repetition of what was stated on page 17 . A decrease in an asset must be offset by one or more of the following:

- (a) increase of another asset,
- (b) decrease of a liability,
- (c) decrease in worth of the business.

Usually one may use the process of elimination. If, in a given transaction such as paying \$60 for interest, we eliminate (a) and (b), then we must conclude that the offset to the decrease in asset is (c) decrease in worth of the business.

Apply it to the personal affairs of a man: Take a dollar from his pocket and spend it in some way that neither gets him another asset or decreases a debt. Is he not worth less?

To be sure, a man in business knows this, and continues it. The paying of his rent, telephone, gas and oil for the truck are all similar situations. It is a case of temporarily decreasing his worth in the hope that later it will result in increasing his worth. At the moment, however, the transaction has decreased what the business is Worth and it is that which must now be recorded. When the contractor disposes of the house he is building, he will then record any profit from the sale as an increase in the worth. He hopes that this increase will be more than the accumulated decreases.

January 21,	Decrease Cash	\$750	
		650	(-\$100)
	Decrease Liability	1,000	
	Southern Lumber Co.	900	(-\$100)

A decrease in an asset offset by a decrease in a liability. The Worth of the business remains unchanged.

another in return, or decrease a liability by the same amount. That  
 naturally it will be worth less. This is a recognition of what was stated  
 on page 11. A decrease in an asset must be offset by one or more of

the following:

- (a) Increase of another asset,
- (b) Decrease of a liability,
- (c) Decrease in worth of the business.

Usually one may use the process of elimination. If, in a given transaction  
 such as paying \$50 for interest, we eliminate (a) and (b), then we must  
 conclude that the offset to the decrease in asset is (c) decrease in worth  
 of the business.

Apply it to the personal affairs of a man: Take a dollar from his  
 pocket and spend it in some way that neither gave him another asset or de-  
 creased a liability. Is he not worth less?

To be sure, a man in business knows this, and continues it. The  
 paying of his rent, telephone, gas and oil for the truck are all similar  
 situations. It is a case of temporarily decreasing his worth in the hope  
 that later it will result in increasing his worth. At the moment, however,  
 the transaction has decreased what the business is worth and it is that  
 which must now be recorded. When the contractor finishes all the houses he  
 is building, he will then record any profit from the sale as an increase  
 in the worth. He hopes that this increase will be more than the accu-  
 mulated decreases.

January 1, 1920	Decrease Cash	\$150
		250 (-100)
	Decrease liability	1,000
	Decrease owner's equity	200 (-100)

A decrease in an asset offset by a decrease in a liability. The worth of  
 the business remains unchanged.



The totals are all affected.

Total Assets	\$9,440	
	9,340	(-\$100)
Total Liabilities	3,000	
	2,900	(-\$100)
Total Liabilities & Worth	9,440	
	9,340	(-\$100)

Expressed in the form of the equation, we have the following:

Assets	=	Liabilities	+	Worth
<u>\$9,440 - \$100</u>	=	<u>\$3,000 - \$100</u>	+	<u>\$6,440</u>
\$9,340	=	\$9,340		

Note that every transaction has had a double effect.

Jan. 11 affected two assets.

Jan. 14, affected two assets.

Jan. 20, affected one asset and the Worth.

Jan. 21, affected one asset and one Liability.

January 28, Changes

Cash	\$ 650	
	2,150	(+\$1500)
Worth	6,440	
	7,940	(+\$1,500)
Totals	8,340	
	10,840	(+\$1,500)

This of course is quite evident. Increases or decreases of cash are always first to be seen.

In the form of the equation thus:

Assets	=	Liabilities	+	Worth
<u>\$9,340 + \$1,500</u>	=	<u>\$2,900 + \$6,440 + \$1,500</u>		
		\$7,900		
<hr/>		<hr/>		
\$10,840	=	\$10,840		

The totals are all correct.

Total Assets	2,400	(-2,400)
Total Liabilities	2,400	(-2,400)
Total Liabilities & Worth	2,400	(-2,400)

Expressed in the form of the equation, we have the following:

Assets	=	Liabilities	+ Worth
2,400 + 0.00	=	2,400.00 - 0.00	2,400
2,400	=	2,400	

Note that every transaction has had a double effect.

Jan. 11, effected two assets.

Jan. 14, effected two assets.

Jan. 20, effected one asset and the Worth.

Jan. 21, effected one asset and one liability.

January 30, Closes

Assets	2,400	(-2,400)
Worth	2,400	(+2,400)
Totals	2,400	(-2,400)

This of course is quite evident. Increases or decreases of each are

always equal to the other.

In the form of the equation then:

Assets	=	Liabilities	+ Worth
2,400 + 0.00	=	2,400.00 + 0.00	2,400
2,400	=	2,400	



## January 30 (1st transaction)

Decrease Cash	\$2,150	
	1,250	(-\$900)
Decrease the Liability account, Southern Lumber Co. to nothing	\$900	- \$900
Decrease Totals	\$10,840	
	9,940	-\$ 900

At this time the name of the creditor may be crossed out.

## January 30 (2nd transaction) changes

Cash	<del>\$1,250</del>	
	1,225	-\$25
Worth	<del>7,040</del>	
	7,915	-\$25
Totals	<del>10,840</del>	
	10,815	-\$25

This transaction is similar to the one of January 20.

## January 30 (3rd transaction) changes

Cash	<del>\$1,225</del>	
	1,825	+ \$600
Briggs	<del>1,000</del>	
	400	- \$600

This transaction involves assets only. Cash is not property but represents a right in property. A dollar bill is cash. A dollar bill represents a certain right one has in property held by Banks or the Government. The account with Briggs is also an asset. The Arthur Taylor Co. has no particular certificate representing their right in any of Brigg's property but as he acknowledges that property right, there is little fundamental difference between the asset "Cash" and the asset "Theodore Briggs". The similarity might seem stronger if Brigg's debt was supported by a promissory note. In this case both the dollar bill and Brigg's note would be certificates stating the rights in the government's and Brigg's property. Both of course are assets. The fact that in this

January 30 (1st transaction)

Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000

At this time the name of the creditor may be crossed out.

January 30 (2nd transaction)

Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000

This transaction is similar to the one of January 30.

January 30 (3rd transaction)

Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000
Debit	1,000	
Credit		1,000

This transaction involves assets only. Cash is not properly but represents a right in property. A dollar bill is cash. A dollar bill represents a certain right and is in property held by banks or the Government. The account with Briggs is also an asset. The dollar bill is not a particular certificate representing their right in any of Briggs' property but as he acknowledges that property right, there is little fundamental difference between the asset "Cash" and the asset "Theodore Briggs". The similarity might seem stronger if Briggs' debt was supported by a promissory note. In this case both the dollar bill and Briggs' note would be certificated stating the rights in the Government's and Briggs' property. Both of course are assets. The fact that in this



case the Arthur Taylor Co. does not possess a note signed by Briggs does not make the account any less an asset. In Chapter XIII it will be shown how these accounts supported by notes are classified but never is it said that the one is an asset and the other not.

January 30. (4th transaction) changes

Cash	\$1,825	
	1,665	-\$160

House in Construction	6,390	
	6,550	+\$160

No other changes  
Same as January 11

Assets	=	Liabilities	+	Worth
\$10,815 + \$160 House	=	\$2,900	+	\$7,915
- \$160 Cash				
<hr/>		<hr/>		
\$10,815	=	\$10,815		

January 31

Change Cash	\$1,665
	1,649

Change Worth	7,915
	7,899

Change Totals	10,815
	10,799

Same as January 20, and January 30

Every one of the ten business transactions have now been recorded. Each change in any of the elements of the Balance Sheet has been made. The statement showed at the end of each transaction the new condition of the business and on January 31 appears as follows:

case the Arthur Taylor Co. does not possess a note signed by Bridge  
 does not make the account any less an asset. In Chapter XIII it will  
 be shown how these accounts reported by notes are classified but never  
 is it said that the one is an asset and the other not.

January 30. (4th transaction) changes

Cash	\$1,450	
	1,450	-2100
House in Construction	6,300	
	6,300	-4100

No other changes  
 Same as January 21

Assets		Liabilities
\$10,610 + \$100 House	=	\$10,610 - \$1,000
- 100 Cash		
<hr/>		<hr/>
\$10,610	=	\$10,610

January 31

George Cash	\$5,400	
	1,200	
George Worth	6,200	
	7,000	
George Totals	10,600	
	10,700	

Same as January 30. and January 31

Every one of the business transactions have now been re-  
 corded. Each change in any of the elements of the Balance Sheet has  
 been made. The statement shown at the end of each transaction the  
 new condition of the business and on January 31 appears as follows:



# Arthur Taylor Company - General Contractors

Durham, North Carolina

## Balance Sheet

December 31, 1929.

Assets		Liabilities and Worth	
Cash	1,000	Durham Nat'l. Bank (Note Payable)	2,000
	960		
	810		
	750		
	650	Southern Lumber Co.	1,000
	2,150	( Account Payable )	900
	1,250		0
	1,225		
	1,825	Total Liability	3,000
	1,665		2,900
	1,649		2,000
Truck	400		
		Worth	6,500
Cement Mixer	400		6,440
			7,940
House in Construction	6,200		7,915
	6,240		7,890
	6,390		7,899
	6,550		
Misc. Equipment	500		
Theo. Briggs	1,000		
	400		
Total Assets	9,500	Total Liabilities and Worth	9,500
	9,440		9,440
	9,340		9,340
	10,840		10,840
	9,940		9,940
	10,815		10,815
	10,799		10,799

At this time a new statement will be prepared showing the final balances.

The Arthur Taylor Company Balance Sheet in final form is as follows:





Arthur Taylor Company

Balance Sheet

January 31, 1930.

<u>Assets</u>		<u>Liabilities and Worth</u>	
Cash	\$1,649	Note Payable	\$2,0000
		(Durham National Bank)	
Truck	400		
Cement Mixer	400		
House in Construction	6,550	Worth	7,899
Misc. Equipment	500		
Theo. Briggs	<u>400</u>		<u>          </u>
Total Assets	<u>\$9,899</u>	Total Liabilities & Worth	<u>\$9,899</u>

Arthur Taylor Company

Belmont Street

January 22, 1930.

<u>Liabilities and Equity</u>		<u>Assets</u>	
Cash	\$1,600	Notes Payable	\$2,000
Prepaid	400	(Payable National Bank)	
Current Liab.	400		
Notes in Construction	4,000	Notes	7,000
Misc. Equipment	200		
Trans. Equip.	400		
Total Assets	\$2,000	Total Liabilities & Equity	\$2,000



## CHAPTER V

### THE ACCOUNT

The previous chapter has shown how business transactions may be recorded directly on the Balance Sheet. Ten transactions were recorded, each of them very elementary, but it is certain that a large number of the readers would find themselves in difficulty before they completed the final transactions of January 31. Of course, that is no reason for anyone to become discouraged as they are presumed to be beginners at this accounting work. Good business men would say that our accounting system should be so arranged that it will involve less chance of error, less crossing out and less of this changing of figures. The answer to that is, "Yes, fine; but how shall it be done?". The first step is to study the Balance Sheet (page 28 ) and, if possible, locate any specific part of it that is giving trouble. The part that shows the greatest amount of "Scratching out" and inserting "corrected figures" is Cash. It was changed ten times so that on January 31, that part of the Balance Sheet was as follows:

Cash	1,000
	260
	210
	250
	6,500
	2,150
	1,250
	2,225
	1,825
	1,669
	1,649

How would it look if there were a hundred transactions in a month or a thousand or even more? Surely some other arrangement must be found.

# CHAPTER V THE ACCOUNT

The previous chapter has shown how business transactions may be recorded directly on the Balance Sheet. Two transactions were recorded, each of them very elementary, but it is certain that a large number of the readers would find themselves in difficulty before they completed the final transactions of January 31. Of course, that is no reason for anyone to become discouraged as they are presumed to be beginners at this accounting work. Good business men would say that our accounting system should be so arranged that it will involve less chance of error, less guessing and less loss of this slanting of figures. The answer to that is, "Yes, that; but how shall it be done?" The first step is to study the Balance Sheet (page 15) and, if possible, locate any specific part of it that is giving trouble. The next step shows the greatest amount of "standing out" and inserting "corrected figures" in Cash. It was changed on lines so that on January 31, that part of the Balance Sheet was as follows:

Cash	2,500
	250
	250
	250
	250
	250
	250
	250
	250
	250
	250
	250
	250
	250
	250
	250

Now would it look as there were a hundred transactions in a month or a thousand or even more? Surely some other arrangement must be found.



Changes have been proposed by men in the Building business, and some of them are now submitted here.

First, by a Mr. S ----- from Richmond, Virginia. Mr. S--- says "Instead of making these constant changes directly on the Balance Sheet, attach separate sheets of paper to it on which to make these changes. That is, if you know from past experiences that your cash is constantly fluctuating, make a sheet and head it "Cash". On your Balance Sheet place beside the word Cash, - "see supplementary sheet attached". Any changes of cash would then be recorded on this supplementary sheet and at the end of the month a new Balance Sheet be made out showing the final figure given on the supplementary sheet.

In the illustration given of the Arthur Taylor Co. business in the previous chapter, a Balance Sheet would be made out on January 1 showing:

Cash (see supplementary sheet)      \$1,000.

All changes would then be made on the supplementary sheet as follows:

#### CASH

Date	Amount
Jan. 1	\$1,000
11	960
14	810
20	750
21	650
28	2,150
30	1,250
30	1,225
30	1,825
30	1,665
31	1,649

"This idea of supplementary sheets", Mr. S----- continues, "should include each element of our Balance Sheet in which we anticipate changes during the month". In the Taylor Co. illustration it would mean a sheet for each item shown on the Balance Sheet with the exception of the three

Changes have been proposed by me in the following manner, and some

of them are now submitted herewith.

First, by a Mr. A. --- from Richmond, Virginia, Mr. A. ---

"Instead of making these constant changes in the balance sheet,

submit separate sheets of paper to be added to the main sheet.

That is, if you have three or four changes, that you make in substantially

the same way, make a sheet and send it "Cash". In your balance sheet

place beside the word Cash - "see supplementary sheet attached".

Changes of such a kind may be recorded on this supplementary sheet and

at the end of the month a new balance sheet be made out showing the

total figure given on the supplementary sheet.

In the illustration given of the Atlantic City, Virginia, in the

previous chapter, a balance sheet would be made out on January 1 showing:

Cash (see supplementary sheet) \$1,000.

All changes would then be made on the supplementary sheet as follows:

#### CASH

Balance	Debit
Jan. 1	1,000
12	500
14	100
20	200
22	100
23	1,000
25	1,000
26	1,000
27	1,000
28	1,000
29	1,000
30	1,000
31	1,000

"This idea of supplementary sheets," Mr. A. --- concludes, "should

include each element of our balance sheet in which we anticipate changes

during the month." In the April 30, illustration it would mean a sheet

for each item shown on the balance sheet with the exception of the three



equipment items and the liability to the Durham National Bank.

Mr. W----, also of Richmond, said that because one could not tell just which items would not change during the month, a supplementary sheet should be kept for each asset and each liability that existed in the business. A sheet would also be kept to show the increases and decreases in the Worth. To this, probably all will agree as it is but little extra work and will thereby eliminate all recording on the Balance Sheet. The work will be a great many times more neatly done and in all probability more accurate. As accuracy is the key note of accounting, it is reasonable then that Builders will favor this new "supplementary sheet" plan. This will enable them to start the first of the month with a statement of their financial condition which will then be filed away and all changes made on their supplementary sheets. At the end of the month a new statement can be prepared from the final figures on each of these sheets. All who have listened to this plan have agreed that it is an improvement over the method of recording the transaction directly on the Balance Sheet. It was not accepted as final however. Here are some of the improvements suggested. For illustration, the same asset will be used - Cash - and the same transactions that were used in our preceding chapter.

Department of the Interior and the National Bank.

Mr. W. H. ... also of ... said that ...

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suggested. For illustration, the same asset will be used - Cash - and the  
same transactions that were used in our preceding chapter.



Improvement #1. The increases and decreases computed on the supplementary sheet.

CASH		
Date		Amount
Jan. 1		\$1,000
	Less	40
		<u>960</u>
11	Less	150
		<u>810</u>
14	Less	60
		<u>750</u>
20	Less	100
		<u>650</u>
21	Add	15 00
		<u>2,150</u>
28	Less	900
		<u>1,250</u>
30	Less	25
		<u>1,225</u>
30	Add	600
		<u>1,825</u>
30	Less	160
		<u>1,665</u>
30	Less	18
31		<u>1,649</u>

The above was favored because it had a tendency to eliminate errors. This of course was because the computations were put right on the supplementary sheet. All agreed that this was an improvement. There was one outstanding complaint against it however, which was that it required too many additions and subtractions. Mr. R --- of Hampton offers a solution of this problem. Mr. R --- credits his past experience as a statistician for the formulating of this idea. It is only reasonable that one well trained in segregating figures could devise an efficient method of recording the changes in the value of the fluctuating assets and liabilities and worth.

He said, "Put all your increases of cash in one column and all your decreases in another. Consider the original amount as an increase and the difference between the two columns will represent the amount





you have at this time".

This works out in the following manner:

# CASH

Date	Increases	Decreases
Jan. 1	* \$1,000	
11		\$ 40
14		150
20		60
21		100
28	1,500	
30		900
30	600	
30		25
30		160
31		16

\$3,100

\$1,451

\* Represents the original amount

\$3,100

1,451

\$1,648 - Cash on hand January 31.

Each of these methods gives the same figure to show on the Balance Sheet as of January 31. The Cash at that time is \$1,648. It seems that a better name should be used than "Supplementary Sheets" to this new development to the accounting records. The name commonly accepted in the accounting profession is "account". That is the name that will be used from now on in this paper. It seems to be an appropriate name as what appears on the sheet are "accounts" of what has been happening to the particular assets, liabilities, or the worth of the business. One question has arisen, however, that needs some consideration. It has to do with distinguishing between certain asset and liability accounts. Of course, when an account is headed "Truck" or "Cash", one knows that they represent things that are owned, or "Assets". But what would the accountant say if he were handed four accounts headed as follows:

Account #1	-----	Thomas Shields
Account #2	-----	George Gray
Account #3	-----	Joseph Clark
Account #4	-----	Harry Cooper











Notice that the form has a left side and a right side, both being the same.

The left columns of the account form are used to show the original amount of the asset and any increases of the asset.

The original amount of the liabilities will be shown in the right hand column of the accounts and any additions to these liabilities will be shown in the same column.

In this manner all asset accounts will start in the left columns and all liabilities in the right columns. The worth accounts will be recorded the same as the liabilities account. The reason for this is that it is best to be as consistent with the Balance Sheet and equation as possible. Both the Balance Sheet and equation ( $A = L + W$ ) show the Assets on the left and Liabilities and Worth on the right.

#### EQUATION

$$A = L + W$$

Balance Sheet

Assets

Liabilities  
Worth

It is logical to continue in that manner and show assets on the left side of the account and liabilities and worth on the right hand side .....

#### ACCOUNTS

<u>ASSETS</u>		<u>LIABILITIES</u>		<u>WORTH</u>	
xx			xx		xx

Another advantage of using this method is that the sum of all accounts with amounts on the left side should equal the sum of all accounts with items on the right side. As will be seen later, this equality of left and right sides will enable one to check all the

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and account of the asset and any increase of the asset.

The original amount of the liabilities will be shown in the right

hand column of the account and any additions to these liabilities will

be shown in the same column.

In this manner all asset accounts will start in the left column

and all liabilities in the right column. The total amounts will be

recorded the same as the liabilities account. The reason for this is

that it is best to be as consistent with the Balance Sheet and equa-

tion as possible. Both the Balance Sheet and equation ( $A = L + W$ )

show the assets on the left and liabilities and worth on the right.

#### NOTATION

$$A = L + W$$

Balance Sheet

Liabilities  
Worth

Assets

It is logical to continue in that manner and show assets on the

left side of the account and liabilities and worth on the right hand

side .....

#### ACCOUNT FORM

ASSETS		LIABILITIES	
DEBIT	CREDIT	DEBIT	CREDIT
xx			xx

Another advantage of using this method is that the sum of all  
amounts with amounts on the left side should equal the sum of all  
amounts with amounts on the right side. As will be seen later, this  
equality of left and right sides will enable one to check all the



accounting work for accuracy.

The next question that arises is that of taking care of decreases. Each account has two columns, one of which is used to show:

- (a) the original amount, and
- (b) any increases to this amount.

The other column will be used to show the decreases.

In the asset accounts are shown in the left columns, the original amounts and all increases of these assets. The right column of any asset account will be used to record decreases of that particular asset.

In the liability accounts will be shown in the right columns the original amounts and all increases of these liabilities. The left column of any liability account will be used to record any decreases made in that particular liability.

The worth account will be started off with the amount of the original investment shown in the right hand column. Every transaction that increases the worth of the business will be shown in this right hand column. All decreases in the worth of the business will be shown in the left column of the worth account.

#### Debit and Credit

These words merely mean left and right. Debit is left and credit is right. An entry placed on the left side of the account is called a debit, and an entry on the right side of the account is a credit. Some variations of this may occur later, but generally left is referred to as debit and the right as credit.

#### Rules for Debit and Credit

The explanation on the last few pages regarding increases and decreases in the various kinds of accounts can be condensed to six statements. These are known as the rules of debit and credit. They

notwithstanding for accuracy.

The next question that arises is that of taking care of the-

columns. Each account has two columns, one of which is used to show

- (a) the original amount, and
- (b) any increase to this amount.

The other column will be used to show the decrease.

In the case of accounts now shown in the first column, the original

amounts and all increases of these amounts. The right column of any

asset account will be used to record decreases of that particular asset.

In the liability account will be shown in the right column the

original amounts and all increases of these liabilities. The left

column of any liability account will be used to record any decreases

made in that particular liability.

The worth account will be started off with the amount of the

original investment shown in the right hand column. Every transaction

that increases the worth of the business will be shown in this right hand

column. All decreases in the worth of the business will be shown in

the left column of the worth account.

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decreases in the various kinds of accounts can be condensed to six

statements. These are shown as the rules of debit and credit. They



are:

<u>Debits</u>	<u>Credits</u>
1. Increase of asset	4. Decrease of asset
2. Decrease of Liability	5. Increase of Liability
3. Decrease of Worth	6. Increase of Worth.

Compare these six rules with what was read on pages 36 and 37.

Also, apply these rules to the situations enumerated on page 17.

When discussing the Balance Sheet (page 26), it was said "Every business transaction will affect two or more of the elements of the Balance Sheet". So far as the accounts are concerned, it may be said that if one account is changed, it necessarily follows that some other account (or accounts) must be changed by a like amount.

So far as the rules of debit and credit are concerned, if one account is changed by a debit entry, the corresponding change in some other account must be by a credit entry.

The following is always a good rule to be guided by when making entries; "For every debit there must be a corresponding and equal credit".

Debits	Credits
1. Increase of assets 2. Decrease of liability 3. Decrease of worth	4. Decrease of assets 5. Increase of liability 6. Increase of worth

Compare these six rules with what was read on pages 14 and 15.

Also, apply these rules to the situations enumerated on page 17.

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business transaction will affect two or more of the elements of the

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entries: "For every debit there must be a corresponding and equal

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## CHAPTER VI

## TRIAL BALANCE

Purpose of a Trial Balance

If a Balance Sheet was prepared just as a business was started, both sides of the statement would show equal amounts. Using a very simple illustration, suppose that Walter Brown started business with \$5,000.00 in cash. His Balance Sheet would be as follows:

Walter Brown

Balance Sheet

December 31, 1929

<u>Assets</u>		<u>Liabilities &amp; Worth</u>	
Cash	\$5,000.	Liabilities	00.
		Worth	<u>5,000.</u>
Total	<u>\$5,000.</u>	Total	<u>\$5,000.</u>

The accounts supplementing this Balance Sheet are:

<u>Cash</u>	<u>Worth</u>
5,000.	5,000.

Every business transaction will change two or more elements of the Balance Sheet and therefore every business transaction will change two or more of the accounts. These changes are always recorded by entries which can not be other than equal debits and credits.

It is readily seen that at the beginning of the business the total of the debits equal the total credits, and since all future changes must likewise be recorded by equal debits and credits, it follows that the total debits of the accounts must always equal the total of the credits. Sometimes, however, errors are made which, in posting, disturbs this



UNITED STATES  
FEDERAL BUREAU OF INVESTIGATION

Report of Special Agent

It is stated that the subject was first seen at the residence of the informant on the afternoon of the 1st of October, 1937. The subject was seen in the company of a woman who was identified as the wife of the informant. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937.

Subject's Name

Address

October 1, 1937

Amount	Particulars	Amount
10.00	Travel	10.00
10.00	Food	10.00
10.00	Hotel	10.00

The following is a list of the items which were purchased by the subject on the 1st of October, 1937.

Amount	Particulars	Amount
10.00	Travel	10.00
10.00	Food	10.00
10.00	Hotel	10.00

Every business establishment will charge two or more dollars for the subject's food and lodging on the 1st of October, 1937. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937. The subject was seen in the company of the informant's wife on the afternoon of the 1st of October, 1937.



equilibrium of debits and credits.

The Trial Balance is the means of determining if this equality exists.

### Methods of Preparing Trial Balance

The first thing to do in making a Trial Balance is to list all the accounts which are found in the Ledger. To the right of these names there should be two columns, one called a debit column and the other a credit column. In these columns are placed the total of the debits and credits found in each account. Following is a Trial Balance of Arthur Taylor Co. as of January 31, 1929. These are the same figures shown in the Balance Sheet on page .

#### Arthur Taylor Company

#### Trial Balance

January 31, 1929

Cash	\$3,100	\$ 1,451
Theodore Briggs	1,000	600
House in Construction	6,550	
Truck	400	
Cement Mixer	400	
Miscellaneous Equipment	500	
Note Payable		2,000
Southern Lumber Co.	1,000	1,000
Arthur Taylor - Worth	101	8,000
<u>Total</u>	<u>\$13,051</u>	<u>\$13,051</u>

Another method of showing a Trial Balance is to show the balances of each account rather than the totals of both debits and credits. For example, instead of showing

Cash	\$3,100	\$1,451
------	---------	---------

it would be better to show merely the balance of the account thus:

Cash	\$1,649
------	---------

This will not disturb the equality of debits and credits as what was

• solve



done was merely a subtraction of \$1,451 from both sides

Total Debits	\$3,100	Total Credits	\$1,451
Less	<u>1,451</u>	Less	<u>1,451</u>
	1,649		00

The Trial Balance of Arthur Taylor Co. using this balance method is as follows:

### Arthur Taylor Company

#### Trial Balance

January 31, 1929

Cash	\$1,649	
Theodore Briggs	400	
House in Construction	6,550	
Truck	400	
Cement Mixer	400	
Miscellaneous Equipment	500	
Note Payable	--	2,000
Southern Lumber Co.	--	--
Arthur Taylor - Worth		<u>7,899</u>
<u>Total</u>	<u>\$9,899</u>	<u>\$9,899</u>

Either method serves equally well to test the equality of the debits and credits. The second method is preferred however, because the Trial Balance will then serve as a basis for the new Balance Sheet. A comparison of the two methods is shown below:

### Arthur Taylor Company

#### Comparison of Trial Balance of Totals and Trial Balance of Balances

January 31, 1929

C	Totals		Balances	
Cash	\$3,100	\$1,451	\$1,649	
Theodore Briggs	1,000	600	400	
House in Const.	6,550		6,550	
Truck	400		400	
Cement Mixer	400		400	
Misc. Equipment	500		500	
Note Payable		2,000		2,000
Southern Lumber Co.	1,000	1,000	--	--
Arthur Taylor - Worth	101	8,000		<u>7,899</u>
	<u>\$13,051</u>	<u>\$13,051</u>	<u>\$9,899</u>	<u>\$9,899</u>

There was a debit of \$1,000 from both sides

Total Debit	\$2,100	Total Credit	\$2,100
Less	1,000	Less	1,000
	1,100		1,100

The Trial Balance of Arthur Taylor Co. using this balance method

is as follows:

Arthur Taylor Company

Trial Balance

January 31, 1933

Cash	\$1,000	
Thos. Taylor	400	
House in Conn.	6,000	
Truck	400	
Current Liab.	400	
Miscellaneous	400	
Notes Payable	2,000	
Bank of New York	---	
Arthur Taylor - North	7,000	
Total	\$2,000	\$2,000

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the Trial Balance will then serve as a basis for the new balance sheet.

A comparison of the two methods is shown below:

Arthur Taylor Company

Comparison of Trial Balance of Totals  
and Trial Balance of Balances

January 31, 1933

Debit		Total	
Cash	\$1,000	\$1,000	
Thos. Taylor	400	400	
House in Conn.	6,000	6,000	
Truck	400	400	
Current Liab.	400	400	
Misc. Equipment	400	400	
Notes Payable	2,000	2,000	
Bank of New York	---	---	
Arthur Taylor - North	7,000	7,000	
<hr/>			
Total	\$2,000	\$2,000	



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A Trial Balance is not one of the reports to be presented to the owner of the Business, but serves as an arithmetical device used by the bookkeeper to test the equality of the debits and credits in the ledger. If the total debits and total credits on the Trial Balance are equal, the bookkeeper is assured that for every debit amount recorded in the ledger, there is recorded one or more credits equal in amount. If the total debits and total credits on the Trial Balance are not equal, this is an indication that the bookkeeper has made an error and it is then necessary for him to check his records carefully in order to find the error.

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CHAPTER VII

## JOURNAL

Need of Additional Records

In the previous chapter, business transactions were recorded in ledger accounts. This is often times practical, but in many instances is not the easiest or most efficient method. There are several disadvantages which can be overcome. Seven of these are enumerated here:

1. The account is a compact device and as a result lacks sufficient space to give a complete story of the transaction. It is a place to summarize the transaction and not to give all the details. One may answer that there is no reason why sufficient space could not be provided regardless of how much detail was to be written. Quite so, but that brings up the second objection.
2. If a full explanation is to be written, in which account will it be shown? Remember that every transaction is recorded by entries to at least two accounts. That being the case, where record the details? Those who have continued to use the accounts alone as a matter of accounting records write the explanation in both of the accounts. This, of course, requires double work.
3. The third objection is that in order to find the complete entry of any past transaction, one must look in more than one place. It would be better to record the complete transaction in one place.
4. The entries are not recorded in chronological order. It is desirable to have a chronological record because at some time one may want to refer to a certain date to see what happened on that date. If the transactions have been recorded day by day in a diary form, this sort of information

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will be available. Some Builders are acquainted with the old type of "Day Book" which provided just that sort of record.

5. Errors made in the accounts are difficult to find because the entries rather than being listed chronologically are spread all through the ledger.

6. It is a tedious job to record one part of an entry (the debit) on page six and then keep turning pages until you find the other account in which to record the credit. This takes more time than is necessary.

7. This is the most important disadvantage. Errors are apt to occur often, and having occurred (see #5) are hard to find. Suppose that after a bookkeeper had his debit entry made, and while looking for the account in which to make the credit, the telephone rang. He is called away for some important reason. The next time he starts to work on his books he does not know just where he left off, and consequently he may omit to record some transaction. This often happens and any better system of recording the transaction must eliminate this possibility.

#### Advantages of the Account

After giving all these disadvantages of recording transactions one may justly ask, "Why all the explanation in the previous chapters?"

There are two reasons why the use of the account was explained: First; the reader is becoming acquainted with the principles of accounting which can best be explained by the use of the account. The principles remain the same regardless of how far one studies accounting, therefore it was advantageous to study these principles under the best possible conditions.

The other reason is that even though there are enumerated several disadvantages of recording the transaction immediately in the account, there is one reason for its continuance. That is, the account is the

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conditions.

The other reason is that even though there are numerous several

disadvantages of recording the transaction directly in the account,

there is one reason for its continuance. That is, the account is the



most important record with one exception. That one exception is the Balance Sheet, but by referring back to the chapter on "Accounts", one will find that the accounts are nothing more nor less than the "Balance Sheet" itself. That is, the accounts are merely supplementary sheets to the Balance Sheet, and when summarized on one sheet, the result is a "Balance Sheet".

The account is not to pass out of the discussion. It is the means we have of recording like transactions together. That is one thing that is necessary. Another thing that is wanted (not as important) is a record of transactions "as they happen".

#### The Remedy

Summarizing the disadvantages of recording the transactions directly in the ledger accounts, the entries must be made

- 1st, in complete and detailed form;
- 2nd, in chronological order;
- 3rd, in one place;
- 4th, providing means for locating errors;
- 5th, doing all of this with the least possible work.

#### The Journal

Those who happen to know something of the French language, know the word for "day". In France, "Bonjour" is the equivalent to our "Good day". "Bon" for good, and "jour" for day. The french word "jour" is probably where the word journal came from, as "journal" means a "day book". The journal is a day book; a diary in which to write down the day by day transactions. This will be done by writing down all of the things that would have been written in the accounts plus a complete explanation of the transactions. In doing this the bookkeeper will

- 1st, make a complete and detailed entry;
- 2nd, make this entry in one place; and
- 3rd, make it in chronological order.

The other points will be discussed later.

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3rd, make it in chronological order.

The other points will be discussed later.









The date of the first transaction recorded in the journal is written at the top of the page above the ruling, the month, day, and year being given. The dates of all other transactions performed during the same month are shown by writing the day in the middle of the page on the line below the preceding transaction.

### Illustration of the Use of the Journal

On page 22 of the chapter on the Balance Sheet there was enumerated ten transactions of the Arthur Taylor Company. The Balance Sheet before these transactions is shown on page 21. They are given again below and will be used to show how they would be recorded in a Journal:

#### Arthur Taylor Company

#### Balance Sheet

December 31, 1929.

<u>Assets</u>		<u>Liabilities &amp; Worth</u>	
Cash	\$1,000.00	<u>Liabilities</u>	
Truck	400.00	Note Payable,	\$2,000.00
Cement Mixer	400.00	Durham National Bank	
House in Construction	6,200.00	Account Payable	
Misc. Equipment	500.00	Southern Lumber Co.	1,000.00
Theodore Briggs	1,000.00		
		Total Liabilities	\$3,000.00
		Worth	6,500.00
Total Assets	\$9,500.00	Total Liab. & Worth	\$9,500.00

The following are the transactions during January 1930.

1930	
Jan. 11	Paid his carpenter \$40.00 for labor on Job #1
14	Paid for materials used on Job #1, \$150.00
20	Paid Durham National Bank \$60.00 for interest on loan
21	The Southern Lumber Co. asks the business to pay something on account. \$100 is sent to them with a promise to pay the balance on January 30.
30	The Southern Lumber Co. is paid the balance due them.
30	Mr. Taylor makes an additional investment of \$1,500.00
30	Paid \$25.00 for repairing the truck
	(Note. This does not increase the value of the truck to more than \$400.00)
30	Mr. Briggs pays the business \$600.00, leaving a balance still due of \$400.00
30	pay carpenters \$160.00 for work on job #1
31	Pay telephone bill of \$ 16.00

The date of the first transaction recorded in the Journal is 1/1/1920.

At the top of each page above the entries, the month, day, and year being

given. The dates of all other transactions occurring during the same

month are shown by writing the day in the middle of the page as the first

below the preceding transaction.

### Illustration of the Use of the Journal

On page 12 of the ledger on the balance sheet there was announced

ten transactions of the Arthur Taylor Company. The balance sheet before

these transactions is shown on page 11. They are given below and

will be used to show how they would be recorded in a Journal:

Arthur Taylor Company

Balance Sheet

December 31, 1919.

<u>Assets</u>		<u>Liabilities &amp; Equity</u>	
Cash	\$1,000.00	Notes Payable	\$1,000.00
Trade	400.00	Accounts Payable	400.00
Current Assets	400.00	Bank of America	400.00
Investment in Construction	6,000.00	Investment in Construction	6,000.00
Real Estate	1,000.00	Real Estate	1,000.00
Prepaid Insurance	1,000.00	Prepaid Insurance	1,000.00
Total Assets	\$10,800.00	Total Liabilities & Equity	\$10,800.00

The following are the transactions during January 1920.

1920	
Jan. 11	Sold the company for \$10,000.00 for labor on job #1
12	1/10 for materials used on job #1, \$100.00
13	Sold the company for \$10,000.00 for labor on job #1
14	The company for \$10,000.00 for labor on job #1
15	On account, \$100.00 for labor on job #1
16	Balance on January 30.
17	The company for \$10,000.00 for labor on job #1
18	1/10 for materials used on job #1, \$100.00
19	Sold the company for \$10,000.00 for labor on job #1
20	(Note: This item was transferred to the value of the work to date)
21	Jan. 30, 1920
22	1/10 for materials used on job #1, \$100.00
23	Sold the company for \$10,000.00 for labor on job #1
24	1/10 for materials used on job #1, \$100.00



This Balance Sheet and the transactions would be shown in accounts as follows: The items representing the Balance Sheet as of December 31, 1929, or January 1, 1930 are marked (1) . The transactions are marked with their respective dates in a like manner.

Cash	
:	
(1) \$1,000.00:	\$ 40.00 (11)
(28) 1,500.00:	150.00 (14)
(30) 600.00:	60.00 (20)
	: 100.00 (21)
	: 900.00 (30)
	: 25.00 (30)
	: 160.00 (30)
	: 16.00 (31)

Note Payable, Durham Nat'l. Bank	
:	
	:
	: \$2,000.00 (1)
:	

Truck	
:	
(1) \$ 400.00:	:
:	

Account Payable, Southern Lumber Co.	
:	
(21) \$ 100.00 :	\$1,000.00 (1)
(30) 900.00 :	:

Cement Mixer	
:	
(1) 400.00:	:
:	

Miscellaneous Equipment	
:	
(1) 500.00:	:
:	

Worth	
:	
	: \$6,500.00 (1)
(21) 60.00 :	\$1,500.00 (28)
(30 ) 25.00 :	:
(31) 16.00 :	:
:	

House in Construction-Job #1	
:	
(1) 6,200.00:	:
(11) 40.00:	:
(14) 150.00:	:
(30) 160.00:	:

Theodore Briggs	
:	
(1) 1,000.00:	600.00 (30)

The entries will now be illustrated in Journal form. See next two pages.

This Balance Sheet and the transactions would be shown in accounts as follows: The items representing the Balance Sheet as of December 31, 1930, or January 1, 1931 are marked (1). The transactions are marked with their respective dates in a like manner.

Assets		Liabilities	
(1) \$1,000.00	(1)	(1) \$1,000.00	(1)
(2) 1,000.00	(2)	(2) 1,000.00	(2)
(3) 100.00	(3)	(3) 100.00	(3)
(4) 100.00	(4)	(4) 100.00	(4)
(5) 100.00	(5)	(5) 100.00	(5)
(6) 100.00	(6)	(6) 100.00	(6)
(7) 100.00	(7)	(7) 100.00	(7)
(8) 100.00	(8)	(8) 100.00	(8)
(9) 100.00	(9)	(9) 100.00	(9)
(10) 100.00	(10)	(10) 100.00	(10)
(11) 100.00	(11)	(11) 100.00	(11)
(12) 100.00	(12)	(12) 100.00	(12)
(13) 100.00	(13)	(13) 100.00	(13)
(14) 100.00	(14)	(14) 100.00	(14)
(15) 100.00	(15)	(15) 100.00	(15)
(16) 100.00	(16)	(16) 100.00	(16)
(17) 100.00	(17)	(17) 100.00	(17)
(18) 100.00	(18)	(18) 100.00	(18)
(19) 100.00	(19)	(19) 100.00	(19)
(20) 100.00	(20)	(20) 100.00	(20)
(21) 100.00	(21)	(21) 100.00	(21)
(22) 100.00	(22)	(22) 100.00	(22)
(23) 100.00	(23)	(23) 100.00	(23)
(24) 100.00	(24)	(24) 100.00	(24)
(25) 100.00	(25)	(25) 100.00	(25)
(26) 100.00	(26)	(26) 100.00	(26)
(27) 100.00	(27)	(27) 100.00	(27)
(28) 100.00	(28)	(28) 100.00	(28)
(29) 100.00	(29)	(29) 100.00	(29)
(30) 100.00	(30)	(30) 100.00	(30)
(31) 100.00	(31)	(31) 100.00	(31)
(32) 100.00	(32)	(32) 100.00	(32)
(33) 100.00	(33)	(33) 100.00	(33)
(34) 100.00	(34)	(34) 100.00	(34)
(35) 100.00	(35)	(35) 100.00	(35)
(36) 100.00	(36)	(36) 100.00	(36)
(37) 100.00	(37)	(37) 100.00	(37)
(38) 100.00	(38)	(38) 100.00	(38)
(39) 100.00	(39)	(39) 100.00	(39)
(40) 100.00	(40)	(40) 100.00	(40)
(41) 100.00	(41)	(41) 100.00	(41)
(42) 100.00	(42)	(42) 100.00	(42)
(43) 100.00	(43)	(43) 100.00	(43)
(44) 100.00	(44)	(44) 100.00	(44)
(45) 100.00	(45)	(45) 100.00	(45)
(46) 100.00	(46)	(46) 100.00	(46)
(47) 100.00	(47)	(47) 100.00	(47)
(48) 100.00	(48)	(48) 100.00	(48)
(49) 100.00	(49)	(49) 100.00	(49)
(50) 100.00	(50)	(50) 100.00	(50)
(51) 100.00	(51)	(51) 100.00	(51)
(52) 100.00	(52)	(52) 100.00	(52)
(53) 100.00	(53)	(53) 100.00	(53)
(54) 100.00	(54)	(54) 100.00	(54)
(55) 100.00	(55)	(55) 100.00	(55)
(56) 100.00	(56)	(56) 100.00	(56)
(57) 100.00	(57)	(57) 100.00	(57)
(58) 100.00	(58)	(58) 100.00	(58)
(59) 100.00	(59)	(59) 100.00	(59)
(60) 100.00	(60)	(60) 100.00	(60)
(61) 100.00	(61)	(61) 100.00	(61)
(62) 100.00	(62)	(62) 100.00	(62)
(63) 100.00	(63)	(63) 100.00	(63)
(64) 100.00	(64)	(64) 100.00	(64)
(65) 100.00	(65)	(65) 100.00	(65)
(66) 100.00	(66)	(66) 100.00	(66)
(67) 100.00	(67)	(67) 100.00	(67)
(68) 100.00	(68)	(68) 100.00	(68)
(69) 100.00	(69)	(69) 100.00	(69)
(70) 100.00	(70)	(70) 100.00	(70)
(71) 100.00	(71)	(71) 100.00	(71)
(72) 100.00	(72)	(72) 100.00	(72)
(73) 100.00	(73)	(73) 100.00	(73)
(74) 100.00	(74)	(74) 100.00	(74)
(75) 100.00	(75)	(75) 100.00	(75)
(76) 100.00	(76)	(76) 100.00	(76)
(77) 100.00	(77)	(77) 100.00	(77)
(78) 100.00	(78)	(78) 100.00	(78)
(79) 100.00	(79)	(79) 100.00	(79)
(80) 100.00	(80)	(80) 100.00	(80)
(81) 100.00	(81)	(81) 100.00	(81)
(82) 100.00	(82)	(82) 100.00	(82)
(83) 100.00	(83)	(83) 100.00	(83)
(84) 100.00	(84)	(84) 100.00	(84)
(85) 100.00	(85)	(85) 100.00	(85)
(86) 100.00	(86)	(86) 100.00	(86)
(87) 100.00	(87)	(87) 100.00	(87)
(88) 100.00	(88)	(88) 100.00	(88)
(89) 100.00	(89)	(89) 100.00	(89)
(90) 100.00	(90)	(90) 100.00	(90)
(91) 100.00	(91)	(91) 100.00	(91)
(92) 100.00	(92)	(92) 100.00	(92)
(93) 100.00	(93)	(93) 100.00	(93)
(94) 100.00	(94)	(94) 100.00	(94)
(95) 100.00	(95)	(95) 100.00	(95)
(96) 100.00	(96)	(96) 100.00	(96)
(97) 100.00	(97)	(97) 100.00	(97)
(98) 100.00	(98)	(98) 100.00	(98)
(99) 100.00	(99)	(99) 100.00	(99)
(100) 100.00	(100)	(100) 100.00	(100)

The entries will now be illustrated in Journal form. See next two pages.



January 1, 1930

Page 54

Cash	1,000	--		
Truck	400	--		
Cement Mixer	400	--		
Miscellaneous Equipment	500	--		
House in Construction - Job #1	6,200	--		
Theodore Briggs - Accounts Rec.	1,000	--		
Note Payable - Durham Nat'l. Bank			2,000	--
Southern Lumber Co.-Acct. Pay.			1,000	--
Arthur Taylor - Capital			6,500	--
This entry is to record the opening of the books, listing the individual assets, liabilities and the worth of the company.				
11				
Job #1	40	--		
Cash - Carpenters			40	--
14				
Job #1	150	--		
Cash - Materials			150	--
20				
Arthur Taylor - Capital	60	--		
Cash			60	--
Interest on note-Durham Nat'l. Bank				
21				
Southern Lumber Co.	100	--		
Cash			100	--
Paid on account				
28				
Cash	1,500	--	1,500	--
Arthur Taylor - Capital				
Additional Investment				

1,000 --	Cash
400 --	Truck
400 --	Concrete Mixer
500 --	Macholinson Equipment
2,500 --	House in Construction - Job #1
1,000 --	Thessaro Bridge - Accounts Rec.
2,000 --	Note Payable - Western Nat'l Bank
7,000 --	Southern Lumber Co. - Acc't. Pay.
3,500 --	Arthur Taylor - Capital This entry is to record the opening of the books, listing the individual assets, liabilities and the worth of the company.
	12
50 --	Job #1
50 --	Cash - Contractors
	13
100 --	Job #1
100 --	Cash - Materials
	20
50 --	Arthur Taylor - Capital
50 --	Cash Interest on note - Western Nat'l Bank
	21
100 --	Southern Lumber Co.
100 --	Cash Paid on account
	22
1,500 --	Cash
1,500 --	Arthur Taylor - Capital Additional Investment



January 30, 1930

Page 55

Southern Lumber Co.	900 --	
Cash		900 00
In full of account		
30		
Arthur Taylor - Capital	25 --	
Cash		25 --
Repairs to truck		
30		
Cash	600 --	
Theodore Briggs		600 --
Received on account		
30		
Job #1	160 --	
Cash - Carpenters		160 --
31		
Arthur Taylor - Capital	16 --	
Cash		16 --
Telephone bill		

The preceding entries will be commented on briefly and attention called to some things that pertain to the form of the Journal entry. It is absolutely essential that the reader understands why each account was debited or credited. Any doubt should be cleared by a review of the chapter on the Account and a study of the theory of debit and credit.

First, locate the January 1st entries in the T accounts and compare them with the first entry in the Journal. Do likewise with the entries for each transaction. Read the entry in the Journal, then locate it in the accounts.

In the Journal there are two debit and two credit positions;





a debit position for the name of the account and a debit position for the amount. The same is true, of course, for the credit.

The name of the account to be debited is written first. Begin it as illustrated, right up beside the second red line. Then the name of the account to be credited is written on the next line, but indented about three quarters of an inch. Some bookkeepers draw a light pencil line from the top of the page to the bottom as a guide line for writing the names of the accounts to be credited. The left hand money column is for the amount of the debit, and the right money column for the amount of the credit.

The explanation for the entry is written on the line below that on which the name of the account was written. It is usually indented about another three quarters of an inch.

Note that a space is left between each entry and that a line is allowed for writing the date.

Now you see how a day by day record is kept of each business transaction, giving a complete story of the details and having all the information pertaining to the transaction in one place.

A classification of this information is still desired, and for this reason means must be provided for transferring the entries on the Journal to the accounts. The reason for this is that all the increases and decreases of cash are wanted in one place; the Cash account; and, all the costs of our individual Jobs in one place - the individual Job accounts; and, likewise for each Asset, Liability and Worth account.

The process of transferring the entries from the Journal to the accounts is called Posting. It will be explained in the next chapter.

a debit position for the name of the account and a debit position for the amount. The name is first, of course, for the credit.

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an illustration, right up beside the second red line. Then the name of

the account to be credited is written on the next line, but indented about

three quarters of an inch. Some bookkeepers draw a light pencil line from

the top of the page to the bottom as a guide line for writing the names

of the accounts to be credited. The left hand money column is for the

amount of the debit, and the right money column for the amount of the

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which the name of the account was written. It is usually indented about

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and decreases of cash are wanted in one place - the Cash account; and,

all the costs of our individual jobs in one place - the individual job

accounts; and, likewise for each Asset, Liability and Worth account.

The process of transferring the entries from the Journal to the

accounts is called Posting. It will be explained in the next chapter.



## CHAPTER VIII

## POSTING

Assuming that the entries have been recorded day by day in the Journal, the next step is to get the same information into the accounts so that like entries will be together.

Transactions are recorded in  
the Journal

---

Chronologically day by day as  
they happen

Transactions are recorded in  
the Account

---

Like transactions together.

The above is similar to a stone crusher and grader with which all builders are familiar.

As the stone comes from the crusher it is in all sorts of sizes, ranging from one-half inch to six inches in sizes. They all go into a revolving screen which has small size holes at the receiving end and larger sized ones towards the other end. Beneath the revolving screen are bins which catch the stones that fall through the screens. The first bin gets all small stones while the last bin gets larger ones. The largest stones of all go out the very end of the screen.

The object of the screening is to get stones of like sizes together. That is what is done with the entries.

1. Stone Crusher

Contains all sizes of stone

2. The Screen

Process of separating stones

3. The Bin

For holding like stones

1. Journal

Contains all kinds of entries

2. Posting

Process of separating entries

3. The Account

For holding like entries



FOOTNOTES

1. The first of the three main points of the report is that the evidence is not sufficient to establish the guilt of the accused. The second point is that the evidence is not sufficient to establish the guilt of the accused. The third point is that the evidence is not sufficient to establish the guilt of the accused.

2. The second of the three main points of the report is that the evidence is not sufficient to establish the guilt of the accused. The third point is that the evidence is not sufficient to establish the guilt of the accused. The fourth point is that the evidence is not sufficient to establish the guilt of the accused.

3. The third of the three main points of the report is that the evidence is not sufficient to establish the guilt of the accused. The fourth point is that the evidence is not sufficient to establish the guilt of the accused. The fifth point is that the evidence is not sufficient to establish the guilt of the accused. The sixth point is that the evidence is not sufficient to establish the guilt of the accused.

4. The fourth of the three main points of the report is that the evidence is not sufficient to establish the guilt of the accused. The fifth point is that the evidence is not sufficient to establish the guilt of the accused. The sixth point is that the evidence is not sufficient to establish the guilt of the accused. The seventh point is that the evidence is not sufficient to establish the guilt of the accused.



### Showing that the Entry has been Posted

In the previous chapter it was pointed out that when making the entries directly to the accounts, it often happens that one might be interrupted in the middle of an entry and, as a result, when starting the bookkeeping work again be at a loss to know where to begin. This was so because there was no definite way of checking the work off as it was recorded. As the entries are now recorded in the Journal, and as a result are listed chronologically, it is highly improbable that any should be omitted. Next, the bookkeeper must be certain that he does not omit posting any of them to the accounts. Each entry in the Journal will be checked off as it is posted to the accounts in the ledger. Instead of using a common check mark ✓, however, the bookkeeper will use the page number of the ledger on which this account is found. For example, if the following is in the Journal:

January 30, 1930				Page 9	
		Job #1	100 00		
		Cash		100 00	

\$100.00 will be posted to the debit side of Job #1 account and \$100.00 to the credit side of the Cash Account.

Job #1					
Jan	30	9	100	--	

Cash					
		Jan.	30	9	100 --





Note that the source of the entries is shown in the "folio" column of the accounts. The "9" means that the entry is posted from page 9 of the journal.

Suppose that Job #1 account is on page 16 of the ledger and that the Cash Account is on page 1. Instead of using check mark thus ✓, to show that the entries have been posted, use as a substitute "16" and "1". This serves a double purpose. It shows that the entry has been posted as would a ✓ mark, but in addition shows to what page it has been posted and, as a result, serves as a fine cross reference.

After posting, the journal entry given above appears thus:

January 30, 1930				Page 9	
16	Job #1	100	00		
1	Cash			100	00

This matter of paging is important and must be done every time without fail, both in the journal and the ledger.

With the names of the writers in the "Index" column  
of the records. The "W" means that the entry is copied from page 1 of  
the Journal.

But as page 100 of the Journal is on page 11 of the ledger and that  
the Cash account is on page 1, instead of using a book mark page 1  
to show that the entry is from page 100, we use a book mark page 11  
to show that the entry is from page 100. It is now clear that the entry was from  
page 100 of the Journal. In addition to the ledger page 11 we  
have posted the entry on page 11, as a result, there is a double reference.  
After posting, the Journal entry should be as follows:

100 00	100 00	100 00	100 00
100 00	100 00	100 00	100 00
100 00	100 00	100 00	100 00
100 00	100 00	100 00	100 00

This matter of posting is important and must be done every time.

Without fail, both in the Journal and the ledger.



## CHAPTER IX

## RULING AND BALANCING AN ACCOUNT

Preliminary to the taking of a Trial Balance, the accounts should be totaled. These totals are shown in small but legible figures immediately beneath the last entry on each side, care being exercised to leave sufficient space for a regular entry on the same line, at the top of which appears the pencil footing. Reference to the illustration on page 57 will make this clear.

Balancing an Account

Sometimes it is desirable, as in the cash account, to show on the face of the account the difference between the total debits and credits, i.e., the balance of the account. This is done by writing the amount of the balance on the side showing the smaller total. This will then make both sides equal. The account is then totaled and the amounts written on the line below the last entry. Rulings as illustrated on page 57 are then made. On the next line below the ruling the balance item is brought down to its proper side. The account is said to have been closed as to all items above the rulings and shows its open balance in the one item beneath the rulings.

The totals in small figures in the debit and credit columns are to be inserted with pencil. As explained above, these pencil totals should be placed close to the preceding amount so as to leave room for entry of another item on the line just below.

It is important to bear in mind that, as has been stated above, the closing balance of the account is on the side showing the smaller pencil total, but the opening balance which appears beneath the ruling is on the

## BALANCE SHEET AND STATEMENT OF AFFAIRS

The balance sheet is the statement of the financial position of a business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business. The balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business. The balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business.

Balance Sheet and Statement of Affairs

The balance sheet is a statement of the financial position of a business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business. The balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business. The balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business. The balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business.

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It is important to note in this regard, as has been stated above, that the balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business. The balance sheet is a statement of the financial position of the business at a particular date. It is a statement of the assets and liabilities of the business at a particular date. The assets are the resources of the business, and the liabilities are the obligations of the business.



opposite side, the only purpose of the entry on the smaller side being to force an equality of the two sides and therefore allow a formal closing off of all the entries to that point and a showing of the "Balance" as a single item in the new portion of the account.

It should be noticed that this "balance" entry does not disturb the equilibrium of the books, because it is entered on both the debit and credit side of the same account.

#### Rulings.

The lines above the totals, which indicate the addition extends only through the money columns and are on the same horizontal line on both sides, debit and credit. The closing rulings beneath the footings are double and extend through the date columns, the money columns, and the posting reference columns. The diagonal line on the debit side from the total line to the date column for the last entry is for the purpose of filling all blank lines, thus preventing entries therein after the account is formally closed. See illustration on page 57 .

#### Transferring from one page to another.

When a page has been filled it is necessary to transfer the account to another page. This is accomplished by adding each column and putting both the debit and credit totals on the last line of each column. These totals are then put on the first line of the new page.

On the old page a notation must be made to show where the totals have been transferred, and on the new page another notation is made to show where these totals came from. The words "Forwarded to page 125" and "Forwarded from page 124" are used for these notations. See illustration on pages 57 and 58 .



opposite side, the only purpose of the entry on the smaller side being  
to force an equality of the two sides and therefore allow a formal  
closing off of all the entries to that point and a showing of the  
"Balance" as a single item in the new position of the account.  
It should be noticed that this "balance" entry does not disturb the  
equality of the books, because it is entered on both the debit and  
credit side of the same account.

Balance

The lines above the totals, which indicate the addition extends only  
through the money columns and are on the same horizontal line on both  
sides, debit and credit. The closing entries beneath the footings are  
double and extend through the date column, the money column, and the  
posting reference column. The diagonal line on the debit side from the  
total line to the date column for the last entry is for the purpose of  
filling all blank lines, thus preventing entries therein after the  
account is formally closed. See illustration on page 24.

Transferring from one page to another

When a page has been filled it is necessary to transfer the account  
to another page. This is accomplished by adding each column and putting  
both the debit and credit totals on the last line of each column. These  
totals are then put on the first line of the new page.

On the old page a notation must be made to show where the totals  
have been transferred, and on the new page another notation is made to  
show where these totals came from. The words "Forwarded to page 12" and  
"Forwarded from page 12" are used for these notations. See illustration  
on pages 27 and 28.



## Cash

1930			
Jan	1 Investment 54	1000 -	
	28 55	1500 -	
	30 55	600 -	
		<u>3100 -</u>	

1930			
Jan.	11 Job #1 54	40 -	
	14 " 54	150 -	
	20 Interest 54	60 -	
	21 So. Lumber Co. 54	100 -	
	30 " " " 55	900 -	
	30 Truck Rep. 55	25 -	
	30 Job #1 55	160 -	
	30 Telephone 55	16 -	
		<u>1451 -</u>	
	Balance	1649 -	

3100 -

1930			
Aug.	1 Balance	1649 -	
	2 Bank of Thomas 56	1000 -	
	9 " " " 56	1000 -	
	14 Briggs 56	400 -	
	17 Mixer 58	20 -	
	27 Bank of Thomas 60	500 -	
		<u>4569 -</u>	

1930			
Aug.	6 Job #1	850 -	
	7 " #2	400 -	
	9 Interest	10 -	
	10 Tel.	4 -	
	11 Postage	3 -	
	11 Rent	30 -	
	13 Job #1	1200 -	
	13 " #2	390 -	
	16 Advertising	20 -	
	17 Truck Rep.	14 -	
	18 Re Gasoline	12 -	
	18 Rope	11 -	
	20 Job #1	110 -	
	20 " #2	130 -	
	20 " #3	15 -	
	26 Charity	5 -	
	27 Gasoline	10 -	
	28 So. Lumber Co.	400 -	
	28 Job #2	350 -	
	28 " #3	250 -	

4214 -

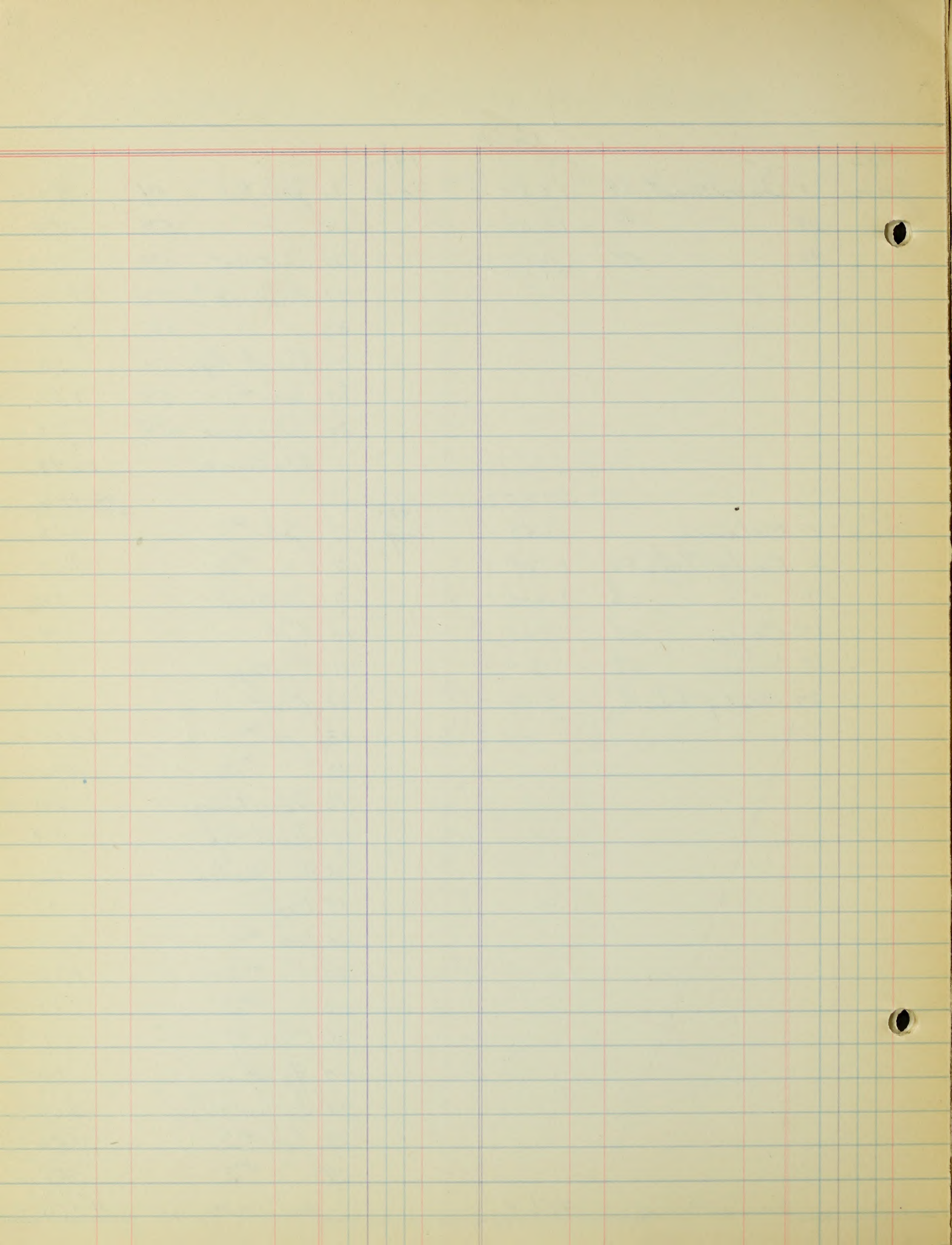
Forwarded to p. 125

4569 -

Forwarded to p. 125

4214 -







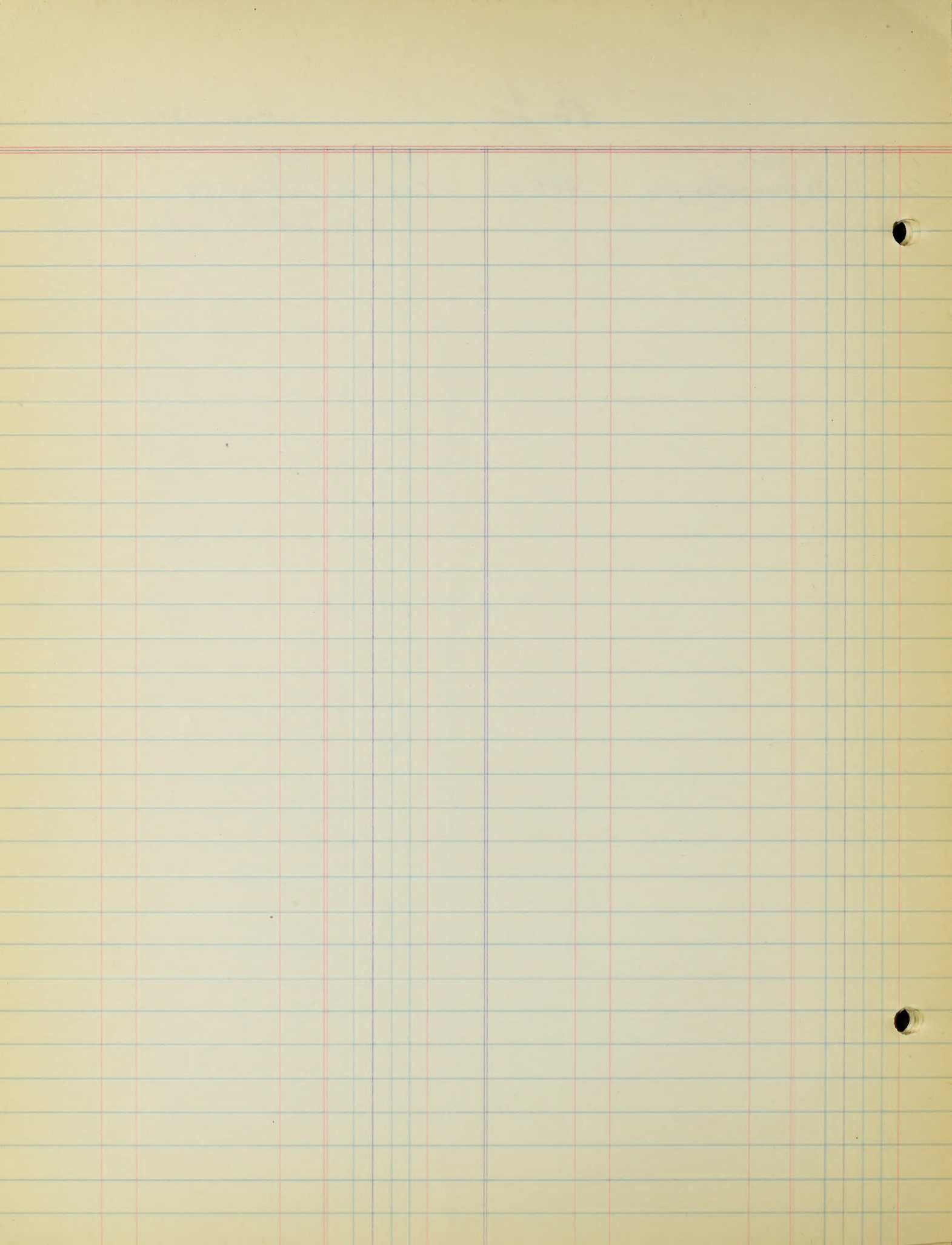
Cash

Page 125

1930 Brot.  
 Aug. 28 forward from p. 124

4569 -

1930 Brot.  
 Aug. 28 End. from p. 124 4214 -  
 28 Job #4 61 20 -





## CHAPTER X

### SUB-DIVISION OF THE CAPITAL ACCOUNT

#### Rules of Debit and Credit.

To begin this chapter, the six rules of debit and credit are again enumerated. The understanding of them is the most important thing in the study of accounting.

<u>Debits</u>	<u>Credits</u>
1. Increase in Assets	4. Decrease in Assets
2. Decrease in Liabilities	5. Increase in Liabilities
3. Decrease in Worth (Capital)	6. Increase in Worth (Capital)

The terms "Worth" and "Capital" will be used interchangeably from now on. It is well to be acquainted with both of the terms. The term "Capital" is used more than "worth".

This chapter will discuss rules 3 and 6, both referring to the "Capital" account.

3. When there has been a decrease in Capital, the Capital account is debited. Why? Because the original investment was shown on the credit side of the account. In the chapter on The Account, the principle of tabulation was used putting all increases to an original amount in the same column and any decreases put in another column.
6. When there has been an increase in Capital, the Capital Account is credited. The reason is given in the previous paragraph.

#### Kinds of Decreases in Capital.

The Worth of any business, or its Capital may be decreased in three ways:

- (a) by the proprietor withdrawing part of his investment;
- (b) by losses on contracts;
- (c) by expenses.

CHAPTER X

THE DIVISION OF THE CAPITAL ACCOUNT

Notes of Debits and Credits

To begin this chapter, the six rules of debit and credit are again enumerated. The understanding of them is the most important thing in the study of accounting.

Debits

Credits

- |                                |                                |
|--------------------------------|--------------------------------|
| 1. Increase in Assets          | 1. Increase in Assets          |
| 2. Decrease in Liabilities     | 2. Decrease in Liabilities     |
| 3. Decrease in Worth (Capital) | 3. Decrease in Worth (Capital) |

The terms "Worth" and "Capital" will be used interchangeably from now on. It is well to be acquainted with both of the terms. The term "Capital" is used more than "Worth".

This chapter will discuss rules 1 and 2, both relating to the

"Capital" account.

1. When there has been a decrease in Capital, the Capital account is debited. Why? Because the original investment was shown on the credit side of the account. In the chapter on the account, the principle of debiting was used making all increases to an original amount in the same column and any decreases in another column.

2. When there has been an increase in Capital, the Capital account is credited. The reason is given in the previous paragraph.

Rules of Debits and Credits

The Work of my business, or its Capital may be increased in

three ways:

- (a) by the proprietor withdrawing part of his investment;
- (b) by losses on investments;
- (c) by expenses.



Therefore, any of the three on the preceding page will always be recorded by a debit to the Capital account.

Debit the Capital account for:

1. Withdrawals of investments,
2. Losses on contracts.
3. Expenses.

#### Kinds of Increases of Capital

The Worth of any business or its Capital may be increased in three ways:

- (a) by the proprietor making additional investments,
- (b) by gains on contracts,
- (c) by miscellaneous earnings.

Credit the Capital account for:

1. Additional Investments.
2. Gains on contracts.
3. Miscellaneous incomes.

A specimen of a Capital account at the end of a year with increases and decreases recorded is shown on the following page.

Therefore, any of the three on the preceding page will always

be reported by a debit to the Capital account.

Debit the Capital account for:

1. Withdrawals of investments.
2. Losses on contracts.
3. Expenses.

Kind of Increase of Capital

The form of an increase of the Capital may be increased in three

ways:

- (a) by the proprietor making additional investments.
- (b) by gains on contracts.
- (c) by miscellaneous earnings.

Credit the Capital account for:

1. Additional investments.
2. Gains on contracts.
3. Miscellaneous incomes.

A statement of a Capital account at the end of a year with increases

and decreases recorded is shown on the following page.



## Ewing &amp; Moore Construction Company - Capital

Explanation		Explanation	
Rent	50.00	Investment	10,000.00
Office Salaries	100.00	Gain on Job #1	600.00
Telephone	4.00	Gain on Job #2	35.00
Insurance	120.00	Interest on Deposit	17.00
Office Supplies	4.00	Additional Investment	500.00
Interest	4.00	Gain on Job #3	472.00
Loss on Job #11	250.00	Gain on Job #7	85.00
Telephone	9.00		
Rent	50.00		
Taxes	410.00		
Loss on Job #6	25.00		
Office Supplies	75.00		
Trucking	25.00		
Telephone	6.00		
Advertising	100.00		
Rent	50.00		
Telephone	6.00		
Telephone	1.00		
Interest	4.00		
Loss on Job #8	110.00		
Charity	10.00		
Office Salaries	100.00		
Advertising	6.00		
Rent	50.00		
Insurance	35.00		
Office Supplies	11.00		
Postage	14.00		
Telephone	6.00		
Charity	9.00		
Rent	50.00		
Interest	4.00		
Advertising	40.00		
Office Salaries	100.00		
Truck Expense	35.00		
Office Supplies	38.00		
Rent	50.00		
Depreciation	300.00		
Interest Expense	4.00		

Balance Sheet - Capital

Debit	Explanation	Credit	Explanation
		20,000.00	Investment
20,000.00	Investment		
		100.00	Office Salaries
100.00	Office Salaries		
		100.00	Telephone
100.00	Telephone		
		100.00	Insurance
100.00	Insurance		
		100.00	Office Supplies
100.00	Office Supplies		
		100.00	Interest
100.00	Interest		
		100.00	Loss on Job #1
100.00	Loss on Job #1		
		100.00	Telephone
100.00	Telephone		
		100.00	Rent
100.00	Rent		
		100.00	Taxes
100.00	Taxes		
		100.00	Loss on Job #2
100.00	Loss on Job #2		
		100.00	Office Supplies
100.00	Office Supplies		
		100.00	Printing
100.00	Printing		
		100.00	Telephone
100.00	Telephone		
		100.00	Advertising
100.00	Advertising		
		100.00	Rent
100.00	Rent		
		100.00	Telephone
100.00	Telephone		
		100.00	Telephone
100.00	Telephone		
		100.00	Interest
100.00	Interest		
		100.00	Loss on Job #3
100.00	Loss on Job #3		
		100.00	Charity
100.00	Charity		
		100.00	Office Salaries
100.00	Office Salaries		
		100.00	Advertising
100.00	Advertising		
		100.00	Rent
100.00	Rent		
		100.00	Insurance
100.00	Insurance		
		100.00	Office Supplies
100.00	Office Supplies		
		100.00	Postage
100.00	Postage		
		100.00	Telephone
100.00	Telephone		
		100.00	Charity
100.00	Charity		
		100.00	Rent
100.00	Rent		
		100.00	Interest
100.00	Interest		
		100.00	Advertising
100.00	Advertising		
		100.00	Office Salaries
100.00	Office Salaries		
		100.00	Travel Expense
100.00	Travel Expense		
		100.00	Office Supplies
100.00	Office Supplies		
		100.00	Rent
100.00	Rent		
		100.00	Depreciation
100.00	Depreciation		
		100.00	Interest Expense
100.00	Interest Expense		



The point in showing the Capital account is to point out that the account needs to be analyzed if much worth while information is to be had from it. It must necessarily be analyzed for Income Tax purposes and should be analyzed for the owner's study. It will throw some interesting lights on where the firm's money is going.

It must be analyzed eventually, why not save time and energy by making the analysis at the same time that the entries are made.

The best way to accomplish this is to make a list of the most common types of expenses and incomes that a Builder is likely to have. Each Builder's list will be different from his neighbors because each of them will want to classify the expense to suit their own desires. One man will list: 1- Telephone, 2- Telegraph, 3- Postage; while another would put those three in one group instead of three. The following is submitted as a suggested group of expense and income accounts:

#### Expenses

- 1 - Rent
- 2 - Office Salaries
- 3 - Office Supplies
- 4 - Telephone, Telegraph and Postage
- 5 - Insurance
- 6 - Taxes
- 7 - Depreciation
- 8 - Interest
- 9 - Advertising
- 10 - Charity
- 11 - Miscellaneous Expenses

#### Incomes

- 1 - Interest Earned
- 2 - Miscellaneous Incomes

In addition to the items shown on the preceeding page, there will be losses and profits on contracts.

The point in showing the Capital account is to point out that the account needs to be analyzed in much more detail than it is to be had from it. It must necessarily be analyzed for losses and gains and should be analyzed for the owner's study. It will show some interesting points on where the firm's money is going.

It must be analyzed eventually, why not save time and energy by making the analysis at the same time that the figures are made. The best way to accomplish this is to make a list of the most common types of expenses and losses that a business is likely to have. Each business's list will be different from its neighbors because each of them will want to classify the expenses to suit their own desires. One man will list: 1-Telephone, 2-Postage, 3-Transportation, 4-Travel, 5-Advertising, 6-Interest, 7-Depreciation, 8-Insurance, 9-Repairs, 10-Utilities, 11-Miscellaneous Expenses. Another would put these three in one group instead of three. The following is submitted as a suggested group of expenses and losses:

expenses:

#### Expenses

1	-	Travel
2	-	Office Supplies
3	-	Office Utilities
4	-	Telephone, Telegram and Postage
5	-	Insurance
6	-	Taxes
7	-	Depreciation
8	-	Interest
9	-	Advertising
10	-	Utilities
11	-	Miscellaneous Expenses

#### Losses

1	-	Interest Expense
2	-	Miscellaneous Losses

In addition to the items shown on the preceding page, there

will be losses and profits on contracts.



Having decided on what basis to analyze the increases and decreases in Capital, the next step is to provide a method of keeping like decreases and like increases together.

The following is one way suggested by Schmidt's "Mechanics of Accounting" published by Prentice Hall, Inc., of New York.

He prepares the one big Capital account and then under the "wings" of this account, provides small individual accounts for each type of expense or income as was previously worked out to analyze the increases and decreases of Capital. Each one is named.

<u>Ewing &amp; Moore Construction Company - - - Capital</u>		
<u>Rent</u>	<u>Office Salaries</u>	<u>Interest Earned</u>
<u>Office Supplies</u>	<u>Tel., Tel. &amp; Postage</u>	<u>Miscellaneous Income</u>
<u>Depreciation</u>	<u>Income</u>	
<u>Taxes</u>	<u>Interest Expense</u>	
<u>Advertising</u>	<u>Charity</u>	
<u>Miscellaneous Expense</u>		
<u>Expense Accounts</u>		

It is usually found more convenient, however, to keep each of these "Expense Accounts" on a separate page, remembering all the time that





they are merely SUBDIVISIONS OF THE CAPITAL ACCOUNT.

That is; on a separate page in the ledger, there will be an account called "Rent". When Capital is decreased on account of rent expense, instead of debiting the main Capital account, debit the new "Rent" account.

When the worth of the business (Capital) is increased, such as by Interest Earned, instead of crediting the main Capital account, credit the "Interest Earned" account.

They are merely subdivisions of the capital account.

That is; on a separate page in the ledger, there will be an account called "Rent". When Capital is decreased on account of rent expense, instead of debiting the main Capital account, debit the new "Rent" account.

When the work of the business (Capital) is increased, such as by interest earned, instead of crediting the main Capital account, credit the "Interest Earned" account.



## CHAPTER XI

### INCOME

#### Object of Business

The primary object of the business man, be he a builder, a merchant, a banker, a tradesman, or any one for that matter who is engaged in a commercial enterprise is summed up in one word, "Profit". Not for a moment is there any inference that the one and only aim of a man in business should be Profit, but as a matter of fact it does talk pretty loud, whereas some of the ideals that we all admit we should strive for are oftentimes hardly more than a whisper. It does seem, however, to be more than a coincidence that those who really do a little more than they have to do are the ones who are making the most profit. Service and Profits are by no means strangers.

#### Sources of Income

The Builder's source of income is principally what he receives from his contracts. All work done by the Builder will be considered as a contract, whether it is for a specified price or for so much an hour.

He will also receive income from miscellaneous sources. If any considerable amount of this miscellaneous income is from one source, it will be best to keep record of it separately. All incomes not sufficient to be recorded and classified separately will be recorded in an account called "Miscellaneous Income".

#### Main Source of Income - Contracts

When a Builder receives cash as payment on one of his contracts, his asset Cash is of course increased, and by the rules of Debit and Credit

## CHAPTER XI

### INCOME

#### Subject of Business

The primary object of the business man, as he is called, is to make a profit, a business, or any one of the other who is engaged in a commercial enterprise is summed up in one word, "Profit". Not for a moment is there any inference that the one and only aim of a man in business should be profit, but as a matter of fact it does seem pretty plain, whereas some of the ideas that we all admit we should strive for are sometimes hardly more than a whisper. It does seem, however, to be more than a coincidence that those who really do a little more than they have to do are the ones who are making the most profit. Services and profits are by no means strangers.

#### Sources of Income

The business man's source of income is principally what he receives from his contracts. All work done by the business man will be considered as a contract, whether it is for a specified price or for so much per hour. He will also receive income from miscellaneous sources. If any considerable amount of this miscellaneous income is from one source, it will be best to keep record of it separately. All incomes not sufficient to be recorded and classified separately will be recorded in an account called "Miscellaneous Income".

#### Main Sources of Income - Contracts

When a business man receives cash or payment on one of his contracts, the cash is of course included, and by the rules of debit and credit



The Cash Account is debited. That part is readily understandable, but what about the credit? On page 38 of the chapter "The Account" are six rules of debit and credit. Of the six, the following three pertain to the rule of credit:

1. When an asset is decreased, credit the Asset Account,
2. When a Liability is increased, credit the Liability Account,
3. When Capital is increased, credit the Capital Account.

In chapter IX, "The Subdivision of the Capital Account", it was seen that the Capital Account itself is not credited. Instead, various so called income accounts are credited for the amount of the increase in worth of the business.

An illustration: A Builder has completed Job #1 at a cost of \$8,000. The contract price is \$9,000. The job is a dwelling house on the property of C. D. Stevens, situated on Hampton Creek Road, Hampton, Va.

In the ledger the Job Account is as follows:

Job #1	
\$8,000.00	

The account is an asset account. It does not represent something that the Builder owns, but rather his right in property that someone else owns. According to law, Mr. Stevens owns the land and anything attached to the land; in this case the dwelling house.

The dwelling house is the property of the owner of the land. The Builder does not own one piece of lumber or one nail that has become part of that house. He does, however, have a RIGHT in this property and in addition a right in any and all property of Mr. Stevens to the extent of the contract price, \$9,000.

As the job progresses, its cost increases and the Builder's Right in Mr. Steven's property increases. As Mr. Stevens makes payments to the Builder, this Right in the property decreases.

The Cash account is debited. That part is readily understandable, but what about the credit? It goes up to the transfer "The Account" and the rules of debit and credit. Of the six, the following three remain to be explained:

The rule of credit:

1. When an asset is decreased, credit the Asset Account.
2. When a liability is increased, credit the Liability Account.
3. When Capital is increased, credit the Capital Account.

In chapter 12, "The Application of the Capital Account", it was seen

that the Capital Account itself is not credited. Instead, various so-

called income accounts are credited for the amount of the increase in equity

of the business.

An illustration: A builder has completed Job A at a cost of \$2,000.

The contract price is \$3,000. The job is a dwelling house on a property

of J. D. Stevens, situated at Hampton Green Road, Hampton, Va.

In the ledger the Job Account is as follows:

Job A	
Cost	\$2,000.00

The account is an asset account. It does not represent anything that

the builder owns, but rather his right in property that someone else owns.

According to law, Mr. Stevens owns the land and anything attached to the

land; in this case the dwelling house.

The dwelling house is the property of the owner of the land. The builder

does not own one piece of lumber or one nail that has become part of

that house. He does, however, have a right in this property and in addition

a right in any and all property of Mr. Stevens to the extent of the contract

price, \$3,000.

In the job process, the cost increases and the builder's right in

Mr. Stevens' property increases. As Mr. Stevens means payment to the

builder, this right in the property becomes



When the job is completed, the Builder really has an asset worth ordinarily more than the cost of the job. It is worth the contract price which is made up of the cost and the profit. In the accounting records however, the job will be shown as an asset at no more than cost. When payments are made by Mr. Stevens, the Builder will

1st - Debit the Cash Account (increase in an asset)

2nd - Credit the Job Account (decrease in an asset)-  
decrease in his right in the job.

To illustrate the correct procedure, the following facts will be used. Up to April 30, the job has cost \$4,000. On May 1, a payment of \$3,000. is made. During May additional costs are \$3,000. and payments are \$2,500. During June, costs are \$1,000. and the job completed and payments \$1,500. On July 15, finally payment was made of \$2,000.

Date	The Account		The Builder's Rights in the property
	Job #1		
April 30	\$4,000		\$4,000.
	Job #1		
May 1	\$4,000.	\$3,000.	\$1,000.
	Job #1		
May 31	\$4,000.	\$3,000.	
	3,000.	2,500.	\$1,500.
	Job #1		
June 30	\$4,000.	\$3,000.	
	3,000.	2,500.	
	1,000.	1,500.	\$1,000.
	Job #1		
July 15	\$4,000.	\$3,000.	
	3,000.	2,500.	
	1,000.	1,500.	
		2,000.	--
			Profit \$1,000.00

When the job is completed, the balance really has an asset worth  
 ordinarily more than the cost of the job. It is worth the contract  
 price which is made up of the cost and the profit. In the accounting  
 records however, the job will be shown as an asset at no more than cost.  
 When payments are made by B. Stevens, the balance will

- 1st - Debit the Cash account (increase in an asset)  
 2nd - Credit the Job account (decrease in an asset) -  
 decrease in his right in the job.

To illustrate the correct procedure, the following table will be  
 used. Up to April 30, the job has cost \$4,000. On May 1, a payment  
 of \$3,000 is made. During May additional costs are \$2,000, and pay-  
 ments are \$2,500. During June, costs are \$1,000, and the job completed  
 and payments \$1,500. On July 1, final payment was made of \$2,000.

Date	The Account	The Balance Sheet
		in the company
April 30	Job A \$4,000	\$4,000
May 1	Job A \$3,000	\$1,000
May 31	Job A \$5,000	\$3,000
June 30	Job A \$6,000	\$2,000
July 1	Job A \$8,000	\$0.00

Profit \$1,000.00



The account with totals only, now stands:

Job #1	
\$8,000.	\$9,000.

The \$8,000. represents the cost of the job and was recorded as numerous debits to the asset account "Job #1", because these costs increased the Builder's right in the property. The \$9,000. represents two things:

- (a) \$8,000. of the \$9,000. is for decreasing the rights in the property. Each time a payment was made by Mr. Stevens it decreased the Builder's right in the property, and as a decrease in an asset is recorded by crediting the Asset Account, each time he received a payment he credited that asset account- "Job #1". The debit was to the Cash Account, which was increased.
- (b) \$1,000. of the \$9,000. is the profit. Profits increase Worth. Increases in Worth are recorded by credits to the Capital Account or some supplementary account.

On June 30th the account was as follows:

Job #1			
(Cost)	\$8,000.	\$7,000	(Payments)

The Builder had an equity of \$1,000. in the property. According to the account he had a \$1,000. right in property belonging to Mr. Stevens.

On July 15th this right is relinquished when Mr. Stevens pays \$2,000. The Builder receives \$2,000. and increases his cash by that amount, but decreases his right in Job #1 by \$1,000. only. He receives a \$2,000. asset by decreasing a \$1,000. asset. That nets him a \$1,000. profit.

The account will now stand as it is until the end of the year when two things will be done:

- (a) add the job's share of overhead expenses to the cost of the job.
- (b) close the profit on the job to the Profit and Loss Account.

Both of these points will be discussed in later chapters.

The account with credit only, now stands:

Job A	
\$2,000.	\$2,000.

The \$2,000. represents the cost of the job and was recorded as

expense debited to Job Cost account "Job A", because these costs in-

creased the Holder's right in the property. The \$2,000. represents

the following:

(a) \$2,000. of the \$2,000. is the amounting the rights in the property. But this amount was made by Mr. Stevens. It decreased the Holder's right in the property, and as a result in an asset is recorded by crediting the Asset account, and this is received a payment is credited that asset account "Job A". The debit was to the Cash account, which was increased.

(b) \$2,000. of the \$2,000. is the profit. The profit increases the Holder's right in the property, and as a result in an asset is recorded by crediting the Asset account, which was increased.

On June 30th the account was as follows:

Job A	
\$2,000. (Cost)	\$2,000. (Profits)

The Holder had an equity of \$1,000. in the property. According to

the account he had a \$2,000. right in property belonging to Mr. Stevens.

On July 1st this right is relinquished when Mr. Stevens pays \$2,000.

The Holder receives \$2,000. and increases his cash by that amount, but

decreases his right in Job A by \$2,000. only. He receives a \$2,000.

asset by decreasing a \$1,000. asset. That note has a \$1,000. profit.

The account will now stand as it is until the end of the year when

two figures will be shown:

(a) Add the Job's share of overhead expenses to the cost of the job.

(b) Show the profit on the job to the profit and loss account.

None of these figures will be illustrated in later chapters.









It soon developed that he had other sources of income and as he did not have room for a column for each type of income he decided to keep a separate account for each type of income, and once a year added them together putting the total in the Capital Account.

For each kind of income there will be a separate account which will be credited for any such income received.

In addition, one other account will be kept called "Miscellaneous Income". This account will be credited with any income that does not fit in any of the special income accounts provided. To illustrate:

Mr. Stinneford decides to keep the following income accounts:

1. Cement Mixer Rental
2. Truck Rental
3. Interest Earned
4. Miscellaneous Income

He has received the following in addition to profits on several contracts:

<u>Date</u>	<u>Source of Income</u>	<u>Amount</u>
May 10	Rental of Mixer	\$90.00
" 31	Rental of Garage	12.00
June 30	Interest Earned	45.00
July 8	Rental of Mixer	40.00
" 8	Rental of Truck	25.00
" 31	Received Cash Discount	5.00
Aug. 10	Rental of Mixer	40.00
" 15	Received a Commission for sale of lumber	15.00
Sept. 10	Stored tools for Canadian P.R.R.	15.00
" 30	Interest Earned	60.00

It was developed that he had other sources of income and as he did not have room for a further list of items he decided to keep a separate account for each type of income, and once a year add them together. Having the total in his Capital Account.

For each kind of income there will be a separate account which will be credited for any sum income received.

In addition, any other account will be kept called "Miscellaneous Income". This account will be credited with any income that does not fit in any of the special income accounts provided. He illustrated:

1. Estimated Income to keep the following income accounts:

1. General Income Account
2. Trust Income
3. Interest Income
4. Miscellaneous Income

He has received the following in addition to profits on several items:

Credits:		
Date	Source of Income	Amount
May 10	Profit of Mine	\$50.00
" 31	Profit of Mine	12.00
June 30	Interest Income	45.00
July 3	Profit of Mine	40.00
" 6	Profit of Mine	2.00
" 31	Received Cash Dividend	2.00
Aug. 10	Profit of Mine	40.00
" 15	Received a Commission for sale of stock	10.00
Sept. 10	Profit of Mine for Canadian P.M.A.	11.00
" 30	Interest Income	20.00



He recorded the foregoing as follows:

Truck Rental			Cement Mixer Rental		
	July 8	\$25.		May 10	\$90.
				July 8	40.
				Aug. 10	40.
Cash			Interest Earned		
May	10	\$90.		June 30	\$45.
"	31	12.		Sept. 30	60.
June	30	45.			
July	8	40.			
"	8	25.			
"	31	5.			
Aug.	10	40.			
"	15	15.			
Sept.	10	15.			
"	30	60.			
Miscellaneous Income					
May	31	Garage Rent	\$12.		
July	31	Cash Discount	5.		
Aug.	10	Commission	15.		
Sept.	10	Storage Tools	15.		

Keeping his accounts this way, he is able to keep a record to show just what caused his capital account to increase. In a later chapter we will explain the procedure used to gather these incomes into the Capital Account.

### Summary

The point to remember is, that these incomes increase the worth of the business and are therefore credited to the Capital Account. In this case, instead of being credited directly to the Capital Account, they are credited to the various supplementary accounts of the Capital Account, from where they will later be gathered together and brought to the Capital Account.

He recorded the following as follows:

Current Month Ending		Track Ending	
May 10	100.	July 10	100.
July 10	100.		
Aug. 10	100.		
Disbursements		Receipts	
May 10	100.	May 10	100.
July 10	100.	July 10	100.
Aug. 10	100.	Aug. 10	100.
Disbursements		Receipts	
May 10	100.	May 10	100.
July 10	100.	July 10	100.
Aug. 10	100.	Aug. 10	100.
Disbursements		Receipts	
May 10	100.	May 10	100.
July 10	100.	July 10	100.
Aug. 10	100.	Aug. 10	100.

Keeping his accounts this way, he is able to keep a record of how  
just what caused his capital account to increase. In a later chapter we  
will explain the procedure used to gather these incomes into the Capital  
Account.

### Summary

The point to remember is, that these incomes increase the worth of the  
business and are therefore credited to the Capital Account. In this case,  
instead of being credited directly to the Capital Account, they are credited  
to the various supplementary accounts of the Capital Account, from where  
they will later be gathered to enter and brought to the Capital Account.



## CHAPTER XII

## COLUMNAR JOURNAL

Labor Saving Device

This chapter is devoted to a labor saving device. Accounting records are not worth while keeping if the amount of time required to keep them is in excess of any saving that is made because of them. The accounting department, like any other department, must show returns over and above its cost if it is to be worth while. With this in mind, Builders must use every labor saving device at their command and the Columnar Journal is one of them.

Illustration of Columnar Journal

Following are some typical transactions of a small builder in simple journal form. Guide lines and the like are omitted as they are not necessary for illustrating the present point.

There are fourteen transactions recorded, each of them being a payment of cash for some job, or on account of some particular kind of expense.

Following the entries in journal form are some accounts to which are posted the journal entries:

	February 1		
Job #1		\$50.00	
Cash			\$50.00
Bond for Job			
	-2-		
Job #1		25.00	
Cash			25.00
Building permit			
	-3-		
Job #1		500.00	
Cash			500.00
Materials			





		February 10		
Truck Expense			\$10.00	
Cash				\$10.00
	Gas and Oil for the Week			
		-11-		
Job #1			80.00	
Cash				80.00
	Carpenters			
		-18-		
Job #1			80.00	
Cash				80.00
	Carpenters			
		-19-		
Job #2			50.00	
Cash				50.00
	Bond for Job			
		-20-		
Job #1			75.00	
Cash				75.00
	A. B. Wilson for Excavating			
		-20-		
Job #2			25.00	
Cash				25.00
	Building Permit			
		-25-		
Job #1			120.00	
Job #2			60.00	
Cash				180.00
	Carpenters			
		-25-		
Job #2			400.00	
Cash				400.00
	Materials			
		-25-		
Office Expense			10.00	
Cash				10.00
	Office Supplies			
		-28		
Office Expense			30.00	
Cash				30.00
	Rent-Month of February			
		-22		
Office Expense			50.00	
Cash				50.00
	Bookkeepers Salary			

Account	Debit	Credit	Balance
Truck Expenses		100.00	100.00
Cash			
Gas and Oil for the Week			
	10.00		90.00
Job #1			
Cash			
Materials			
	10.00		80.00
Job #1			
Cash			
Materials			
	10.00		70.00
Job #2			
Cash			
Bond for Job			
	10.00		60.00
Job #1			
Cash			
A. B. Wilson for Moving			
	10.00		50.00
Job #2			
Cash			
Building Rental			
	10.00		40.00
Job #1			
Job #2			
Cash			
Expenses			
	10.00		30.00
Job #2			
Cash			
Materials			
	10.00		20.00
Office Expenses			
Cash			
Office Supplies			
	10.00		10.00
Office Expenses			
Cash			
Post-Office of February			
	10.00		0.00
Office Expenses			
Cash			
Postmaster's Salary			



Job #1		Job #2	
50.00		50.00	
25.00		25.00	
500.00		60.00	
80.00		<u>400.00</u>	
80.00			
75.00		535.00	
<u>120.00</u>			
930.00			
Truck Expense		Cash	
10.00		50.00	
		25.00	
		500.00	
		10.00	
		80.00	
		80.00	
		50.00	
		75.00	
		25.00	
		180.00	
		400.00	
		10.00	
		30.00	
		<u>50.00</u>	
		1,565.00	
Office Expense			
10.00			
30.00			
50.00			

The next step is to show how the posting just illustrated can be done with less work. To do this a "Columnar Journal" is needed. See illustration below:

There are all kinds of columnar records, some having few columns and some having many. This particular form has nine columns. Columns 1 to 6 inclusive are known as debit columns. Columns 8 and 9 are credit columns. Column 7 is the "Name of Account" column in which are to be written the name of the accounts debited and credited.

1	2	3	4	5	6	7	8	9





Notice that on page ~~seventy-four~~ many postings were required to some of the accounts. There were fourteen entries posted to the cash account, seven to Job #1 account, and four to Job #2 account. The object of the columnar journal is to cut out some of this posting work. Where many postings have been necessary to any one account, a special column is reserved in this new form of journal for it. If the entries common to that account are mostly debits, then one of the debit columns is reserved, but if most of the entries to that account were credits, a credit column is used for it. Referring to page ~~seventy-four~~ again, it is seen that both Job #1 and Job #2 had many debits, so special debit columns are reserved for each of them. Cash account had many credit entries so a special credit column for credits to Cash is reserved.

These special columns will be headed Job #1, Job #2, and Cash. Nothing but debits to Job #1 and Job #2 shall go in these columns. They are to be reserved for those kinds of entries only. The only time to use the credit column headed "Cash" is when there is an entry affecting cash and then only for credit.

On page 78 there is the Columnar Journal headed as mentioned above. Note that there are several columns that will not be used just now. The two inside columns are headed "General". All debits or credits that do not fit in any of the special columns will be recorded in these two general columns. The narrow column (1/2 inch) between each money column will be explained in a later chapter.

The entries recorded in simple journal form on pages 72 and 73 are recorded on pages 78 and 79 in the columnar journal.

#### Posting from Columnar Journal

Time is saved when using a Columnar Journal by posting several items







in a lump sum. The total of all debits to Job #1 account as shown by the total of that column in the Columnar Journal is \$930.00 Notice on page 74 that \$930.00 is also the total of all the debits to that account as posted from the simple journal (pages 72 and 73 ). Instead of posting eight times to Job #1 Account, post but once.

The Old Way		The New Way	
Job #1		Job #1	
\$ 50.00			
25.00			
500.00			
80.00			
80.00			
75.00			
<u>120.00</u>			
\$ 930.00		\$ 930.00	

The figure "17" under the total of the Job #1 column (page 79 ) refers to the ledger page to where the \$930.00 has been posted. The same is true of the other special columns.

The entries recorded in the General Columns are posted individually exactly as they would be from a simple journal. The accounts as they would appear when posted from a simple journal are shown at the left on the following page, and as posted from the columnar journal at the right.





Accounts as posted from  
regular journal

Job #1	
\$ 50.00	
25.00	
500.00	
80.00	
80.00	
75.00	
<u>120.00</u>	
\$ 930.00	

Job #2	
50.00	
25.00	
60.00	
<u>400.00</u>	
\$ 535.00	

Cash	
	50.00
	25.00
	500.00
	10.00
	80.00
	80.00
	50.00
	75.00
	25.00
	120.00
	400.00
	10.00
	30.00
	<u>50.00</u>
\$ 1,565.00	

Truck Expense	
10.00	
Office Expense	
10.00	
30.00	
50.00	

Accounts as posted from  
Columnar Journal

Job #1	
\$ 930.00	

Job #2	
\$ 535.00	

Cash	
	\$1,565.00

Truck Expense	
10.00	
Office Expense	
10.00	
30.00	
50.00	

Accounts as posted from

Columnar Journal

Jan 22

\$ 250.00

Jan 22

\$ 212.00

Jan 22

\$1,222.00

Truck Expense

10.00

Office Expense

10.00

20.00

20.00

Accounts as posted from

Regular Journal

Jan 22

\$ 50.00

25.00

200.00

20.00

20.00

20.00

100.00

\$ 520.00

Jan 22

20.00

20.00

20.00

400.00

\$ 500.00

Jan 22

20.00

20.00

200.00

20.00

20.00

20.00

20.00

20.00

20.00

120.00

400.00

10.00

20.00

20.00

\$ 1,222.00

Truck Expense

10.00

Office Expense

10.00

20.00

20.00



## CHAPTER XIII

### NOTES RECEIVABLE

Many times a Builder finds it necessary to take a note from the other party to his contract in payment for work completed. Of course, all prefer to receive cash, but in case this is not possible, a note from the other party is the next best thing as it can readily be turned into cash at the bank, provided there is some financial backing behind either the holder or the maker of the note. When a Builder takes a note to the bank they require him to endorse it. He does this by signing his name on the back of the note. That is a very easy thing to do; too easy in many cases. When he endorses a note in this manner, he makes himself legally liable to pay the holder of the note the amount called for if the original maker fails to do so. This paper is primarily interested in the accounting for these notes and will not consider the legal functions of notes.

A note which one holds is called a Note Receivable, as contrasted with Notes Payable, meaning notes for which he will eventually have to pay cash.

McKinsey, in his Bookkeeping and Accounting says "Implied and oral promises are called Accounts Receivable. Written promises may be received from customers in the form of notes. These are called "Notes Receivable".

#### Classification in the Accounts

Promises to pay, whether oral or written are Assets. They may both be grouped under the one heading, "Accounts Receivable". Accountants prefer, however, to classify each type; one (the oral promises) in an account

## CHAPTER XIII

### NOTE RECEIVABLE

Many times a business finds it necessary to take a note from the other party to its contract in payment for work completed. Of course, all prefer to receive cash, but in case this is not possible, a note from the other party is the next best thing as it can readily be turned into cash at the bank, provided there is some financial backing behind either the holder or the maker of the note. When a business takes a note from a bank they require him to endorse it. He does this by signing his name on the back of the note. That is a very easy thing to do; too easy in many cases. When he endorses a note in this manner, he signs himself jointly liable to pay the holder of the note the amount called for it the original maker fails to do so. This paper is primarily interested in the endorsing for these notes and will not consider the legal functions of notes. A note which one holds is called a Note Receivable, as contrasted with Notes Payable, meaning notes for which he will eventually have to pay cash.

Whitney, in his bookkeeping and accounting says "Promises and oral promises are called Accounts Receivable. Written promises may be received from customers in the form of notes. These are called 'Notes Receivable'."

#### Classification of Notes

Promises to pay, whether oral or written are Assets. They may be grouped under the one heading, "Accounts Receivable". Accounts may be, however, of classically cash type; one (the oral promise) in an account



called Accounts Receivable and the other (written promises) in an account called Notes Receivable.

In this chapter will be illustrated entries which will be made under varying conditions when notes are involved.

On the left will be stated the situation: on the right will be shown the entries in account form. Explanation in the accounts are omitted.

1. <u>Receiving a note</u>	<u>Notes Receivable</u>	<u>Job #1</u>
You receive a note from J. Adams for \$6,000.00 on account Job #1	\$6,000.00	\$6,000.

Notes Receivable account was debited because this asset was increased. Job #1 account was credited because the right in this property (asset) was decreased.

Increasing an Asset = Debit  
Decreasing an Asset = Credit

2. The note is paid at maturity (no interest).	<u>Cash</u>	<u>Notes Receivable</u>
	\$6,000.	\$6,000.
	Debit the Asset increased, Credit the Asset decreased.	

3. The note is paid at maturity (with interest) 6% for 60 days	<u>Cash</u>	<u>Notes Receivable</u>
	\$6,060.	\$6,000.
		<u>Worth</u>
		\$ 60.

Debit for increase in Asset	\$6,060.00	
Credit for decrease in Asset		\$6,000.00
Credit for increase in Worth		60.00
Equal debit and credit	\$6,060.00	\$6,060.00

4. The note is discounted at the bank. The bank charges \$25.00 interest	<u>Cash</u>	<u>Notes Receivable</u>
	\$5,975.00	\$6,000.00
	<u>Interest Expense</u>	
	25.00	

Notes Receivable account is credited because the asset "Notes Receivable" has been decreased. Cash account is debited for the amount it has

called Notes Receivable and the other (written promises) in an account called Notes Payable.

In this chapter will be discussed entries which will be made when varying conditions when notes are involved.

On the left will be noted the adjustment on the right will be shown the entries in account form. Explanation in the accounts are omitted.

Notes Receivable	Notes Payable
1. Received a note from J. Adams for \$5,000.00 at account 100 1/2	
\$5,000.00	\$5,000.00

Notes Receivable account was debited because this asset was increased. Job A account was credited because the right in this property (asset) was decreased.

Increasing an Asset = Debit  
Decreasing an Asset = Credit

Notes Receivable	Cash
2. The note is paid at maturity (no interest).	
	\$5,000.00
	Debit the Asset increased. Credit the Asset decreased.

Notes Receivable	Cash
3. The note is paid at maturity (with interest) \$5 for 90 days	
	\$5,050.00

Notes Receivable	Cash
4. The note is discounted at the bank. The bank charges \$2.00 interest \$2.00 interest	
	\$5,048.00

Notes Receivable	Cash
5. The note is discounted at the bank. The bank charges \$2.00 interest \$2.00 interest	
	\$5,048.00

Notes Receivable account is credited because the asset Notes Receivable has been decreased. Cash account is debited for the amount it has



increased. "Interest Expense" account is debited for the net decrease in Assets (\$6,000. less \$5,975.).

A record should also be kept to show the amount of the Builder's liability on account of endorsements. If the notes are numerous, this can be accomplished by a Note Register in which can be kept the entire history of all notes handled.

increased. "Interest Expense" account is debited for the net decrease in

Assets (\$2,000, less \$3,975.).

A record should also be kept to show the amount of the holder's

liability on account of endorsements. If the notes are numerous, this can

be accomplished by a Note Register in which can be kept the entire history

of all notes handled.



## CHAPTER XIV

## ACCOUNTING FOR BUILDING MATERIALS

Delivery Slips

Materials offer the least difficulty to the builder in the matter of accounting. That is; if the builder makes any pretense at all of keeping cost records. His accounting here as elsewhere must be complete in every detail. He must be sure that every item that is used or purchased is accounted for. This is easily accomplished by the use of "delivery slips". Materials received by railroad do have "delivery slips" in the form of bills-of-lading. Most dealers in building materials now have forms made for their own uses for this purpose. The truck driver is given a slip in duplicate with each load he is to deliver. He has one signed by the receiver of the load which he returns to his employers. The duplicate is retained by the person who receives the goods. These slips do not usually contain the prices. It merely is a receipt of the goods delivered. These delivery slips are then filed away and later checked against the bill for the materials. The bill, and not the delivery slip is the source or basis for the bookkeeping entry. Some concerns, that are lax in their methods, neglect to send out itemized monthly statements. Nothing is to be gained by the builder becoming a part of such business. Nothing is to be lost by the builder insisting upon an itemized bill at least once a month. The dealer will not be antagonized. On the contrary, he will probably be favorably impressed with the Builder's business like habit. If this builder wants more time in which to make payments, he is more apt to get the extension of credit than the man who never shows an interest in his debts until the day before they become overdue.

ACCOUNTING FOR BUILDING MATERIALS

Delivery Bill

Materials enter the least difficulty to the builder in the matter of

accounting. That is: if the builder makes any pretense at all of keeping

cost records, his accounting here is otherwise not to complete in every

detail. He must be sure that every item that is used or purchased is

accounted for. This is easily accomplished by the use of "Delivery slips".

Materials received by railroad or by "Delivery slips" in the form of

bill-of-lading. That builder in building materials now have forms made

for their own use for this purpose. The driver is given a slip in

duplicate with each load as is to deliver. The one signed by the re-

ceiver of the load which he returns to his employer. The duplicate is

retained by the person who receives the goods. These slips do not usually

contain the prices. It merely is a receipt of the goods delivered. Prices

Delivery slips are then filed away and later checked against the bill for

the materials. The bill, and not the delivery slip is the source of basis

for the bookkeeping entry. Some companies, however, use their materials

receipt as usual and itemized monthly statements. Keeping is to be gained

by the builder keeping a list of such materials. Nothing is to be lost by

the builder keeping upon an itemized bill at least once a month. The

builder will not be surprised. On the contrary, he will probably be favor-

ably pleased with the builder's business like habit. If this builder

keeps more time in which to make payments, he is more apt to get the ac-

count of credit than the man who never shows an interest in his debts

until the day before they become overdue.



The delivery slip should be more than a mere piece of paper.. Its purpose is to enable the purchaser to check the quantity and quality of the materials at the time of purchase. A good builder will conscientiously do this. He will then file these slips under the name of the vendor and from these files the monthly bills will be checked.

#### Equipment not Building Materials

There is usually but little question as to what is included under the heading of building materials. It should include all materials which are to be worked upon (not with) by the mechanics in the construction of the job. There are a few things which should not but are sometimes included under this heading. Lumber to be used for staging or scaffolding is one of these items. Lumber to be used exclusively for scaffolding and does not find its way into the job is part of the builder's equipment. The purchase of lumber for scaffolding should not be charged as part of the cost of the job. The purchase of such material is part of the cost of the builder's complete equipment. If, however, this same lumber is used as part of the materials put into the construction of the building, it should be included as an item of cost of the building. The test to apply might be the following: "If, after the job is completed, the item that is in question is a part of the finished structure and is to remain as such, then we must consider it as building material.

#### Disposition of Materials

Building materials are purchased with either one or two things, or both, in mind. A builder buys materials to place in his storehouse or, for a specific job. In the first case he adds to his assets under the heading "Building Materials at Storehouse". In the second case the materials purchased add to the cost of the job under construction. Some-





times the purchase is made with both of these purposes in mind. In any case, the purchase increases the value of some particular asset, either the Storehouse Materials or the Job, or both.

### Terms of Purchase

The most common methods of buying is on credit. The terms of credit vary with the individuals involved.

Buying materials on account means that we are not required to pay for them at the time of delivery. An agreement between the seller and the purchaser usually states when payment shall be made. This agreement may be in writing or merely a verbal agreement. Sometimes nothing is said about when payment is to be made. In such case, the usual practice of the trade should determine the time to pay the bill. The matter of taking cash discounts for early payments will be considered later.

### Bookkeeping Entries

Let us consider what is to be done so far as bookkeeping is concerned when the building materials are purchased.

First, if the materials are purchased for cash: Whenever a cash purchase is made, it is readily seen that the cash is decreased. Therefore, the amount shown in our cash account must be decreased. Suppose that a builder buys \$120.00 worth of rough lumber from the Phoebus Lumber Company. The driver of the truck is given a check for that amount when he delivers it to the Job. The bookkeeper must decrease the asset "cash" and increase by the same amount the asset "Job #1".

To decrease the Cash account, credit the account (to decrease an asset, credit the account); and to increase the amount shown in the Job #1 account, debit the account (to increase an asset, debit the account).

When the purchase is made with cash or by check, the purchase is recorded in the Cash or Accounts Payable account. If the purchase is made on credit, the purchase is recorded in the Accounts Payable account. The purchase is recorded in the Accounts Payable account when the purchase is made on credit. The purchase is recorded in the Cash or Accounts Payable account when the purchase is made with cash or by check.

#### Journal Entries

The most common method of buying is on credit. The terms of credit vary with the individuals involved.

Buying materials on account means that we are not required to pay for them at the time of delivery. An agreement between the seller and the purchaser usually states when payment shall be made. This agreement may be in writing or merely a verbal agreement. Sometimes nothing is said about when payment is to be made. In such case, the usual practice of the trade should determine the time to pay the bill. The matter of timing cash discounts for early payments will be considered later.

#### Journal Entries

Let us consider what is to be done so far as bookkeeping is concerned when the following materials are purchased.

First, if the materials are purchased for cash. Whenever a cash purchase is made, it is readily seen that the cash is decreased. Therefore, the amount shown in the cash account must be decreased. The cash account will be debited \$100.00 with a credit to the Materials account. The driver of the truck is given a check for that amount when he delivers it to the job. The bookkeeper must debits the cash "bank" and increase by the same amount the asset "Job A".

To decrease the cash account, credit the account (to decrease an asset, credit the account); and to increase the asset shown in the Job A account, debit the account (to increase an asset, debit the account).



The entry:

Cash	Job #1
\$ 120.00	\$120.00

If the situation was the same as above except that the material was delivered to the storehouse, the entry would be:

Cash	Materials in Storehouse
\$ 120.00	\$ 120.00

Both of these accounts are asset accounts. One has been decreased (by a credit) and the other increased (by a debit).

#### Purchase with Credit

If, instead of paying cash, assume a situation where the builder is given thirty days in which to pay the bill. \$120.00 worth of lumber is delivered to the job from the Tidewater Lumber Company on September 15. It is agreed that the bill is to be paid within thirty days.

The entry:

Tidewater Lumber Company	Job #1
\$ 120.00	\$120.00

The asset account Job #1 has been increased by the debit of \$120.00 (asset accounts are increased by debits). The account "Tidewater Lumber Company" is a liability account. It represents the amount that is owed to them. To record a new liability or an increase in an already existing liability, credit the account. This is a new liability so a new account is opened, titled "Tidewater Lumber Company" and credited for the \$120.00.

If the lumber company had delivered the material to the storehouse under the same terms, the entry would be:

Tidewater Lumber Co.	Materials in Storehouse
\$120.00	\$120.00

The entry:

Debit	Credit
\$100.00	\$100.00

If the situation was the same as above except that the material was

delivered to the warehouse, the entry would be:

Debit	Credit
\$100.00	\$100.00

Both of these accounts are asset accounts. But the debit increased

(by a credit) and the other increased (by a debit).

Transfer with Credit

If, instead of paying cash, someone a situation where the holder is given thirty days to pay the bill. \$100.00 worth of lumber is delivered to the job from the Tidewater Lumber Company on September 15. It is agreed that the bill is to be paid within thirty days.

The entry:

Debit	Credit
\$100.00	\$100.00

The asset account Job A has been increased by the debit of \$100.00 (asset accounts are increased by debits). The account "Tidewater Lumber Company" is a liability account. It represents the amount that is owed to them. To record a new liability or an increase in an already existing liability, credit the account. This is a new liability so a new account is opened, titled "Tidewater Lumber Company" and credited for the \$100.00. It was further agreed that delivered the material to the warehouse

under the same terms, the entry would be:

Debit	Credit
\$100.00	\$100.00



Notice that there are always equal debits and credits. Every debit must have a corresponding credit and vice-versa.

It quite often happens that an order is received for materials for which a partial payment is made and the purchaser given time in which to pay for the balance due. Suppose that the Tidewater Lumber Company delivered the \$120.00 worth of materials to the job and that they were paid \$80.00, agreeing to accept the remaining \$40.00 in thirty days.

What entry should be made? Thinking of the equation, what parts of it has been changed? Let us analyze the transaction. As a result of it, the cash was decreased by \$80.00; liabilities increased by \$40.00; and the value of the Job increased \$120.00.

Even though the materials have not yet become part of the house, it is best to record it as part of the job the day it is delivered. If an attempt was made to increase the value of the job day by day as each piece of lumber was used, difficulties would surely be encountered.

On the asset side there will be:

Increase of Job	\$120.00	-- Recorded by --	Debit
Decrease of Cash	80.00	-- " "	-- Credit

On the liability side there will be:

Increase of Liability	\$40.00	-- Recorded by --	Credit
-----------------------	---------	-------------------	--------

The Worth remains the same.

Notice that the net increase on the asset side is \$40.00:

Increase	\$120.00
Decrease	<u>80.00</u>
Net Increase	\$ 40.00

This is offset by an increase in the liability account of \$40.00.

The left side of the Balance Sheet totals will be \$40.00 more; but so will the right side be \$40.00 more. Thus both sides still remain equal.

Notice that the two items of value are \$100.00 and \$50.00.

There is a corresponding credit and debit.

It is also noted that an order is received for materials for

which a partial payment is made and the balance given time to which to

pay for the balance due. Suppose that the Timberland Lumber Company be-

lievered the \$100.00 worth of materials to the job and that they were paid

\$50.00, according to receipt the remaining \$50.00 is thirty days.

What entry should be made? Thinking of the situation, what parts of it

has been already? Let us suppose the transaction, as a result of it, the

cash was decreased by \$50.00; liabilities increased by \$50.00; and the

value of the job increased \$100.00.

Even though the materials have not yet become part of the house, it

is best to record it as part of the job as they are delivered. It is

assumed that the value of the job has been increased by the cash paid.

Of course, the cash account would also be increased.

On the credit side there will be:

Materials of job	\$100.00
Decrease of cash	\$50.00
	--
	--

On the debit side there will be:

Increase in liability	\$50.00
	--
	--

The work remains the same.

Notice that the net increase on the asset side is \$50.00:

Materials	\$100.00
Decrease	\$50.00
	--
Net increase	\$50.00

This is offset by an increase in the liability account of \$50.00.

The net side of the balance sheet remains with no net change; but

so will the right side be \$50.00 more. This net side will remain



Notice that there are the same amounts for credit as there are for debits :

One debit of	\$120.00
Two credits, one of \$80 and one of \$40.	\$120.00

This conforms to the rule of equal debits and credits.

After being recorded, the accounts will look as follows:

Job #1	Cash	Tidewater Lumber Co.
\$120.00	\$80.00	\$40.00

### Quantity Purchases

A contractor often finds that if he buys a large quantity of materials, he can get a much lower price. If he had a job that was going to use 3,000 bags of cement, he might buy 5,000 bags if, by so doing, he could get an additional discount of 10%. It is not part of this paper to discuss reasons for or against the practice of buying in large quantities. It is pertinent, however, to mention that a good accounting system will help a contractor determine how much actual savings he really does make, if any at all by purchasing in large quantities. The builder must bear in mind that the cost of the materials is not only the purchase price, but must include all handling charges. Some of these are freight, trucking, labor handling the material, cost of storage space and others, such as increased insurance, depreciation or damage to materials while in storage. A good accounting system provides for showing all these items as part of the cost of the materials.

### Illustration

The following transactions are used to illustrate the proper accounting procedure when materials are transferred from the storehouse to a job:





January 15, Purchased 5,000 bags of cement at \$1.00 per bag, delivered at the storehouse.

January 20, Delivered 1,200 bags from the storehouse to Job #1.

January 25, Delivered 1,000 bags from the storehouse to Job #1.

Recorded in these three accounts:

Materials in Storehouse				Job #1			
Jan. 15	\$5,000.	Jan. 20	\$1,200.	Jan. 20	\$1,200		
		" 25	1,000	" 25	1,000		
Cash							
		Jan. 16	\$5,000.				

On January 15, debit Materials in Storehouse \$5,000 because this asset was increased. At the same time, credit the Cash account \$5,000 because cash was decreased. (Debit an Asset when increased and credit an Asset account when decreased).

On January 20, credit the Materials in Storehouse Account for \$1,200. because this asset was decreased. This is offset by an increase of the same amount in the Job #1 account; a debit to Job #1 account of \$1,200.

January 25th - same as January 20th, except for the amount.

In the above three transactions there is recorded merely the change of one kind of an asset for another; first, materials for cash: second, materials in the storehouse for materials on the job. In this second case the assets are the same materials but are in different places and will soon take a different shape.

#### Materials not all used

If, on February 10, 100 bags are returned from the job to the storehouse, an entry in the books must be made to record this transaction.

This sort of a situation is likely to happen quite often because, as all

January 15, Purchased 5,000 bags of cement at \$1.00 per bag, delivered at the storehouse.

January 20, Delivered 1,500 bags from the storehouse to Job A.

January 22, Delivered 1,500 bags from the storehouse to Job B.

Recorded in Glass Sales Account:

Materials in Storehouse		Job A	
Jan. 15	50,000	Jan. 20	15,000
"	"	"	1,000
Jan. 16	50,000		
Cash			
Jan. 15	50,000		

On January 15, debit Materials in Storehouse \$50,000 because this asset was increased. At the same time, credit the Cash account \$50,000 because cash was decreased. (Debit an Asset when increased and credit an Asset account when decreased).

On January 20, credit the Materials in Storehouse account for \$1,500, because this asset was decreased. This is offset by an increase of the same amount in the Job A account; a debit to Job A account of \$1,500.

January 22 - same as January 20, except for the amount.

In the above three transactions there is recorded merely the change of one kind of an asset for another; first, materials to cash; second, materials in the storehouse for materials on the job. In this second case the assets are the same materials but are in different places and will come back a different shape.

#### Materials Not All Used

It, on February 10, 1900 was one hundred from the job to the storehouse, an entry in the books must be made to record this transaction. This sort of a situation is likely to happen quite often because, as all



know from their own experience, a contractor nearly always has some kind of material left on hand at the completion of a job.

When the material was originally sent to the job, the job was charged for it. If \$100 worth of material was sent and charged\* to Job #6, when \$90 was really what was needed, it is of course, evident that the job was charged \$10 more than should have been necessary. If the extra material was thrown around and wasted, then the Job must be charged for it. The accounting records should be able to show such facts. On the other hand, if no materials were wasted and the foreman returned the excess materials to the storehouse, his job should be given credit for that amount. Giving the job (an asset account) credit decreases the value of that job.

To illustrate, assume that Job #1 account is as follows:

Job #1		
Jan. 20	\$1,200	
" 25	1,000	

(The above charges represent cement sent to the job at \$1.00 per bag)

The foreman has used all but ten bags which he returned to the storehouse. This fact shows that the cost of cement on the job was \$2,200 less \$10. The \$2,200. has been recorded (Jan. 20-Jan. 25). The records must show that what was actually used on Job #1 was \$10. less than the \$2,200. This account (an asset) is decreased by a credit of \$10. In other words, the job is given credit for the \$10. that was saved. After recording this credit, the Job account will appear as follows:

Job #1		
Jan. 20	\$1,200.	Feb. 10 \$10.
" 25	1,000.	

\* Charge- means debit. It is a term that is being used more each day by accountants and probably will be generally accepted as a substitute for the word "debit".

know these things were expected of a contractor nearly always the same kind of material left on hand at the completion of a job.

When the material was originally sent to the job, the job was charged for it. If 100 worth of material was sent and charged to job #1, when \$50 was really sent was needed, it is of course, evident that the job was charged \$10 more than it had have been necessary. If the extra material was taken around and wasted, then the job must be charged for it. The accounting records should be able to show such facts. On the other hand, if no materials were wanted and the former returned the excess materials to the storehouse, the job should be given credit for that amount. If the job (an asset account) credit decreases the value of that job.

To illustrate, assume that job #1 account is as follows:

Job #1	
100.00	CR
50.00	DR

(The above charges represent cement sent to the job at \$1.00 per bag.)

The foreman has used all the ten bags which are returned to the storehouse. This fact shows that the cost of cement on the job was \$2,500 less \$10. The \$2,500 has been recorded (100.00 - 50.00 = 50.00). The records must show that what was actually used on job #1 was \$10. less than the \$2,500. This amount (an asset) is decreased by a credit of \$10. In other words, the job is given credit for the \$10. that was saved. After recording this credit, the job account will appear as follows:

Job #1	
100.00	CR
50.00	DR
10.00	CR

"Overage" means debit. It is a term that is being used more and more by accountants and probably will be generally accepted as a substitute for the word "debit".



### Damaged Materials

Sometimes materials are destroyed by negligence on the part of indifferent workmen. At this moment the author remembers a loss that occurred to the business of a friend in Memphis. The friend was a contractor who had been quite busy and as a result his storeroom became a jumbled mess of materials. He decided to hire a couple of men who were loafing at the time to rearrange his materials. They took about twenty-five bags of cement which were partly broken and put them outside overnight. That night it rained. In the morning-- well, any builder knows what the cement was worth in the morning. Yesterday it was worth \$25.; today it is worth nothing. As asset was decreased in value by the amount of \$25.

That fact must be recorded on the books. Decrease the asset account, Storehouse Materials, and likewise show that the business is worth \$25.00 less as follows:

Storehouse Materials		Worth	
	\$25.00		\$25.00
Asset accounts decreased by a credit, Worth account decreased by a debit.			

If this had happened on a job, no entry would be necessary, because all items of expense which are directly chargeable to a job should be included in the cost of that job. If materials are wasted on the job, it will show up in the reports\* because of the excessive cost of materials. That is, the cost of materials used will be running higher than was estimated. Of course, it is quite likely that a contractor might have overestimated on his cost of materials and as a result excessive costs due to poor management would not show up in the reports. This, however, is the exception rather than the rule.

\*Later chapters will be devoted to this subject.

Investment materials are classified by management on the basis of their  
different purposes. At this moment the total investment is \$100,000.  
According to the statement of the investment in materials, the firm was a con-  
tractor who had been paid only \$25,000 for the investment because a  
small loss of materials. He failed to give a receipt of the materials  
because at the time he was making the investment. They took about twenty-  
five days or more which were partly in the form of cash and partly  
in the form of materials. At the moment, well, my children know  
what the amount was with in the materials. Therefore it was worth \$25,000.  
Today it is worth nothing. The asset was decreased in value by the amount  
of \$75,000.

That fact must be recorded on the books. Therefore the asset should  
be recorded as follows:

Investment Materials	Value
\$25.00	\$25.00
Asset account decreased by a credit.	
With account decreased by a debit.	

If this had happened on a job, no entry would be necessary, because  
all items of expense which are directly attributable to a job should be in-  
cluded in the cost of that job. If materials are used on the job, it  
will show up in the reports. Because of the extensive cost of materials,  
that is, the cost of materials used will be recorded in the cost of the  
job. Of course, it is quite likely that a contractor might have over-  
estimated the cost of materials and as a result extensive costs due to  
poor management would not show up in the reports. This, however, is the  
exception rather than the rule.



Sometimes materials are found on the job, or at the storehouse, which are damaged through no fault of the owner. Materials with flaws in it which make the materials unsuitable are discovered. In such cases, adjustment may be made with the person from whom the materials were purchased. This adjustment may be that the purchaser gives credit for the full amount of the materials or merely for part of it. In case credit is given for the full amount, it is reasonable to assume that all the materials in question were returned.

Assuming that the first entry was to debit the Storehouse Material Account (or the Job account) for the full amount of the bill, an entry at the time of the adjustment should be made crediting the same account for the allowance made. Likewise, the amount of the liability to the other party should be decreased---this by a debit because Liability Accounts are decreased by debits.

#### An Illustration

On March 1, 1930 \$500.00 worth of lumber is purchased from Bickford Lumber Company and delivered to Job #9. Terms are on account.

The entry:

Job #9		Bickford Lumber Company	
Mar. 1, 1930	\$500.	Mar. 1, 1930	\$500.

On March 15, it is discovered that Bickford Lumber Company sent a poor grade of flooring which made up part of the delivery of March 1. They agree to take the flooring back and credit you for the amount charged for the flooring, which was \$75.00.

The entry would be as follows:

Job #9		Bickford Lumber Company	
	\$75.00	\$75.00	

Some of the materials are found on the 1931 or 1932 statements.

which are damaged through no fault of the owner. Materials which have been used in the construction of the building are also included. In such cases, the adjustment may be made with the person from whom the materials were purchased. This adjustment may be for the purchase price credit for the full amount of the materials or merely for part of it. In some cases it is given for the full amount, it is reasonable to assume that all the materials in question were returned.

Assuming that the first entry was to debit the balance sheet account for the 1931 amount for the full amount of the bill, an entry at the time of the adjustment should be made crediting the same amount for the difference made. Likewise, the amount of the liability to the other party should be determined—this by a debit because liability accounts are increased by debits.

#### An Illustration

On March 1, 1930 \$500.00 worth of lumber is purchased from Hickory Lumber Company and delivered to Job No. 1. Terms are on account.

The entry:

Job No.		Hickory Lumber Company	
Mar. 1, 1930 \$500.		Mar. 1, 1930 \$500.	

On March 15, it is discovered that Hickory Lumber Company sent a bill for the flooring which made up part of the delivery of March 1. They want to take the flooring back and credit you for the amount charged for the flooring, which was \$75.00.

The entry would be as follows:

Job No.		Hickory Lumber Company	
Mar. 15, 1930 \$75.00		Mar. 15, 1930 \$75.00	



The foregoing entry, with the entry of March 1, should leave the accounts as follows:

Job #9		Bickford Lumber Company			
Mar. 1	\$500.	Mar. 15	\$75.	Mar. 15	\$75.
				Mar. 1	\$500.

The cost or value of the job has been decreased from \$500 to \$425 and the same for the Liability Account. In a few days more flooring will probably be bought from either Bickford or some other lumber company. An entry for the amount of the new purchase will then be made.

Suppose that as an inducement to keep the flooring, Bickford Lumber Company offered \$10.00 allowance from the bill, provided the material in question would not be returned. This really places a new value on the flooring. That is, the builder agrees to keep it for \$65.00 but not for \$75.00. Of course, he does not owe Bickford Lumber Company \$500 after this agreement; he owes him \$490. The above allowance would make the accounts in question as follows:

Job #9		Bickford Lumber Company			
Mar. 1	\$500.	Mar. 15	\$10.	Mar. 15	\$10.
				Mar. 1	\$500.

The cost of (and value) of Job #9 is \$490. The liability is \$490.

If, in the illustration just gone over, the situation is changed so as to assume that the materials were delivered to the storehouse instead of the job, the only change would be to debit or credit Storehouse Materials Account instead of Job #9 Account.

#### Analysis of situation before the entry

Numerous and complicated situations may arise on this matter of adjustments, allowances, or returned materials. The correct accounting entry will be found first, by an analysis of the situation so as to determine the

The foregoing entry, with the entry of March 1, should leave the

accounts as follows:

Job #		Bickford Lumber Company	
Mar. 1	\$200.00	Mar. 15	\$75.00
Mar. 1		Mar. 1	\$200.00

The cost or value of the job has been decreased from \$200 to \$75 and the same for the liability account. In a few days more floating will probably be brought from either Bickford or some other lumber company. An entry for the amount of the new purchase will then be made.

Suppose that as we indicated to keep the floating, Bickford Lumber Company offered \$1.00 allowance over the bill, provided the material in question would not be returned. This really places a new value on the floating. That is, the original agreed to keep it for \$65.00 but not for \$75.00. Of course, he does not two Bickford Lumber Company \$200 since this agreement; he owes him \$45.00. The above allowance would make the accounts in question as follows:

Job #		Bickford Lumber Company	
Mar. 1	\$200.00	Mar. 15	\$75.00
Mar. 1		Mar. 1	\$200.00

The cost of (and value) of Job # is \$45.00. The liability is \$200.00. It, in the illustration that goes over, the situation is changed so as to appear that the materials were delivered to the jobmaster instead of the job, the only change would be to debit or credit Bickford Lumber Company account instead of Job # account.

#### Analysis of situation before the entry

However and complicated situations may arise on this matter or others, credits, allowances, or returned materials. The correct accounting entry will be found later, by an analysis of the situation so as to determine the



correct values or amounts of the assets and liabilities; and second, to either increase or decrease the account in question so that it will show the correct balance.

### Valuation of materials

One important thing that we have not considered yet is the valuation to be put on the materials, or any other asset. The value, or cost of any asset can be said to consist of two parts: first the purchase price, and second the cost of getting it to the place of business. Of course there is no question on the first, but perhaps a few questions on the second. The cost of getting the asset to the place of business includes the following:

Freight  
Trucking  
Labor unloading from cars or trucks

When money is spent for any of the above (i.e. freight on a carload of bricks delivered to storehouse) the entry would be a debit to Storehouse Materials and a credit to cash.

Sometimes the cost of some particular lot of materials may be made up of several expenditures as the following illustration shows:

Mr. Starling is a contractor doing business in Hampton, Phoebus and Newport News. He has an opportunity to buy a carload of bricks at Ashland, Virginia for \$14.00 per thousand. These bricks are three miles from the railroad and will have to be trucked from their present location to the C. & O. Freight yard. They will be shipped to Hampton, where they will be unloaded and trucked to four different jobs and part to the storehouse at Hampton. Two of the jobs are at Phoebus, one at Hampton, and one at Newport News. The storehouse is between Hampton and Newport News.

To get these bricks to their various destinations, Mr. Starling makes the following expenditures: The total purchase was 120,000 bricks.

correct values or amounts of the assets and liabilities; and secondly, to either increase or decrease the amount in question so that it will show the correct balance.

### Valuation of materials

One important thing that we have not considered yet is the valuation to be put on the materials, or any other asset. The value, or cost of any asset can be said to consist of two parts: first the purchase price, and second the cost of getting it to the place of business. Of course there is no question on the first, but perhaps a few questions on the second. The cost of getting the asset to the place of business includes the following:

Freight  
Insurance  
Labor unloading from cart or truck

When money is spent for any of the above (i.e. freight on a cartload of bricks delivered to warehouse) the entry would be a debit to Warehouse Materials and a credit to cash.

Secondly as the cost of some particular lot of materials may be made up of several expenditures as the following illustration shows:

Mr. Starling is a contractor doing business in Hampton, Virginia and Newport News. He has an opportunity to take a cartload of bricks at \$14.00 per thousand. These bricks are taken from the railroad and will have to be trucked from their present location to the S. & O. freight yard. They will be shipped to Hampton, where they will be unloaded and trucked to four different jobs and sent to the storehouse at Hampton. Two of the jobs are at Chesapeake, one at Newport News, and one at Newport News. The storehouse is between Hampton and Newport News.

To get these bricks to their various destinations, Mr. Starling makes the following expenditures: The total purchase was 150,000 bricks.



Purchase price	\$1,680.00
Truck at Ashland	20.00
Labor at Ashland	20.00
Freight at Hampton	100.00
Labor unloading from car	25.00
Trucking to the four jobs & Storehouse	30.00
His own wages supervising the loading	25.00
	<u>\$1,900.00</u>

With all of these added costs he still gets his brick at a low price of \$1,900.00, or \$15.83 per thousand.

If Mr. Starling should try to charge each job its proportionate share of the above seven items of cost, he would undoubtedly find the effort to be considerable. A better method would be to debit Storehouse Materials for the full amount of the \$1,900.00 even though all of it did not go to the storehouse. The next thing to do would be to determine the cost per thousand bricks so that we may credit the Storehouse Materials Account for the bricks that went directly to the jobs. The jobs being debited for a corresponding amount. The advantage of the above method is that there is a central place in the books for collecting all the costs of the bricks, thereby arriving at a unit cost.

Assume that the 120,000 bricks were delivered as follows:

Job #23	Phoebus	15,000.
" #24		15,000
" #13	Hampton	40,000
" #38	Newport News	25,000
Storehouse		<u>25,000</u>
Total		120,000

The entries would be as follows:

Storehouse Materials		Job #23	Job #24
\$1,680.	\$1,503.85	\$237.45	\$237.45
20.			
20.			
100.			
25.			
30.			
25.			
		Job #13	Job #38
		\$633.20	\$293.75





The seven entries on the debit side of Storehouse Materials Account represent the seven items of expense in getting the bricks from Ashland, Virginia to the four jobs and the storehouse in and near Hampton, Virginia.

The four debits to the four job accounts represent the value of the bricks delivered to these jobs at \$15.83 per thousand. ( $\$1,900 \div 120$ ).

The credit entry in Storehouse Materials account represents the theoretical decrease of Storehouse Materials. The \$1,900 worth of debits to this account is also theoretical, as that amount never did go to the storehouse. However, as each side was inflated by the same amount, one offsets the other. The justification of this straying away from the fundamental rules is that it makes an easier process of determining the value per thousand bricks to charge to each job.

The balance of the Storehouse Materials is \$396.15 ( $\$1,900.00$  less \$1,503.85). This is the value of the 25,000 bricks delivered to the storehouse. 25,000 bricks at \$15.83 is \$393.73 or 40 cents less than what is shown as a balance of the Storehouse Materials Account. The discrepancy is due to the fact that the actual cost per thousand bricks was a fraction of a cent more than the \$15.83.

These last few paragraphs have been to point out that when a large amount of materials have been purchased for several jobs, and that in addition to the original purchase price there are handling charges to be added to the cost; the best process is to charge the whole amount to the Storehouse Materials Account and then make a second entry crediting this account and debiting the various job accounts at the newly computed values.

The cover entries on the debit side of Groceries Materials account represent the cover items of expense in getting the prices from the Virginia to the four jobs and the expenses in and out of the Virginia. The four debits to the four job accounts represent the value of the prices delivered to these jobs at \$12.45 per thousand. (\$1,000 - 12.45).

The credit entry in Groceries Materials account represents the actual cost of the prices of Groceries Materials. The \$1,000 credit of value to this account is also theoretical, as that account never did go to the storehouse. However, as each bill was billed by the storehouse, the difference between the actual cost of the prices and the theoretical value of the prices is that it makes an equal process of debiting the value of the prices to the storehouse to charge to each job.

The balance of the Groceries Materials is \$1,000.00. A loss of \$1,000.00. This is the value of the \$1,000 prices delivered to the storehouse. \$1,000 prices at \$12.45 is \$12,450.00 or \$12,450.00 less value is shown as a balance of the Groceries Materials account. This discrepancy is due to the fact that the actual cost per thousand prices was a fraction of a cent more than the \$12.45.

These last few paragraphs have been to point out that when a large amount of materials have been purchased for several jobs, and that in addition to the original prices there are handling charges to be added to the cost; the best method is to charge the whole amount to the storehouse Materials account and then make a second entry crediting this amount and debiting the various job accounts at the newly computed values.



## CHAPTER XV

### ACCOUNTING FOR SUB CONTRACTORS

This chapter will be very short because it deals with the application of principles already studied and involves but few new ideas.

#### Memorandum Entries

The first record a builder should make is a memorandum at the very top of the job account stating all details of the contract. This should include the amount of the bid, estimated cost, name of the other party to the contract, names of other interested parties and their addresses, names of sub contractors, addresses and the amount of each of their sub-contracts, and dates on which each part of the work is to be finished.

References will probably be made to specifications, copies of the contracts and other papers pertaining to the new contract. These should be readily accessible by an adequate filing system. A double ruled line will separate this detailed explanation from the debit and credit entries in the job account.

#### Separate Memo Sheets for each Sub Contractor

It would be good policy to keep a separate record for each sub-contractor, as a supplement to the regular double entry set of books. This record should show all the details for the sub contract similar to the memorandum just mentioned for the job account. This explanation would be underruled. The lower section of this record (it would be in account form) would be used to record payments made to the sub contractor.

In the debit side would be recorded payments made to him. If a

## CHAPTER IV

### ACCOUNTING FOR THE CONTRACTOR

This chapter will be very short because it deals with the principles

of principles already studied and involves but few new ideas.

#### Memorandum System

The first record a builder should make is a memorandum at the very  
beginning of the job account stating all details of the contract. It is  
important to include the amount of the bid, estimated cost, name of the owner,  
to the contract, names of other interested parties and their addresses,  
names of sub-contractors, addresses and the amount of each of their  
contracts, and dates on which each part of the work is to be finished.  
References will probably be made to specifications, copies of the

contracts and other papers pertaining to the new contract. These  
should be readily accessible by an adequate filing system. A ledger  
which will separate this detailed information from the debit and  
credit entries in the job account.

#### Separate Memorandum for Each Sub-Contractor

It would be good policy to keep a separate record for each sub-  
contractor, as a safeguard to the regular books may not be perfect.  
This record should show all the details for the sub-contract and also  
the memorandum just mentioned for the job account. This explanation  
would be sufficient. The lower section of this record (it would be in  
account form) would be used to record payments made to the sub-contractor.

In the ledger also would be recorded payments made to him. If a



sub-contractor was paid \$100.00 on account, the job account would be debited and the cash account credited. In addition, a corresponding debit entry would be made in the sub-contractor's account.

<u>Job #1</u>		<u>Cash</u>	
Wilson, S.C.		\$100.00	
\$100.00			Job #1, Wilson, S.C.
<u>Heating &amp; Plumbing, Job #1, L.O. Wilson, S.C.</u>			
	\$100.00		

This may look like debits of \$200.00 and a credit of \$100.00, but it is not. The equal debit and credits are to Job #1 and Cash Account. The account with L.O. Wilson, sub-contractor is not part of the general books. It is a memorandum account only and debits or credits to it are not on the usual debit and credit basis.

The purpose of the account is to show how much has been paid Wilson. Because there is a notation in the account as to the total amount of his contract, it serves as a valuable check so that the sub-contractor will not be paid more than the amount of the contract price, or more than the same proportion of the contract price than the amount of the completed work bears to the total work of his sub-contract.

Whenever any payments are made on account of a sub-contract, debit the job account and credit the cash account. Also debit the memorandum sub-contractor's account.

#### Costs Incurred by General Contractor in behalf of the Sub-Contractor

Sometimes the general contractor, because of better standing, can buy the materials to be used by the sub-contractor at a better price than the sub-contractor would be able to get. In such an event, it is not at all uncommon for the general contractor to do so. The entry would be a debit





to the job account and a credit to cash account or accounts payable, depending upon whether it was a cash purchase or one on account. This memo entry would also be made to the sub-contractor's account. The general contractor may or may not, as he sees fit, include a profit in this material when he charges the sub-contractor's account. If he does charge a profit to the sub-contractor and shows a debit to the job account to include this profit, his entry should be as follows, assuming the following transaction:

He buys 5,000 bricks for \$100 for sub-contractor Wilson and charges him \$110.

<u>Job #1</u>	<u>Cash</u>	<u>Worth</u>
Bricks, S.C. \$110.	\$100.	\$10.00 Profit on bricks charged to Wilson-Job #1
<u>Memo Account - Wilson, S.C. Job #1, Bricks</u>		
\$110.00		

In a similar manner any expenses or other items of cost would be handled

to the job account and a credit to cash account or another payable.  
 depending upon whether it was a cash purchase or one on account. This  
 same entry would also be made to the sub-contractor's account. The  
 general contractor may or may not, as the case is, include a profit in  
 this material when he charges the sub-contractor's account. If he does  
 charge a profit to the sub-contractor and shows a debit to the  
 account to include this profit, his entry should be as follows, assuming  
 the following transaction:

He pays \$1,000 price for \$100 for sub-contractor Wilson and charges

his \$100.

Wilson	Cash	Job #1
<div>\$100.00</div> <div>credit to Wilson</div> <div>charged to</div> <div>Wilson's ac</div>	<div>\$100.</div>	<div>Wilson, 100.</div> <div>\$100.</div>
<div data-bbox="431 1042 1105 1083"> <u>Wilson's account - Wilson, 100.00, Price</u> </div> <div data-bbox="870 1103 995 1144">\$100.00</div>		

In a similar manner any amounts or other items of cost would be

included



CHAPTER XVI

ACCOUNTING FOR LABOR

Labor is without any question the element in the cost that tends to give the most difficult problems. This is so from a management point of view as well as from that of the accountant.

This chapter is merely setting forth the debit and credit for payments of labor. Chapter XXIV will discuss such matters as time cards, direct labor, indirect labor, and apportioning labor costs to the various units of the job: that is; determining labor costs for erecting forms, laying floors, etc.

When money is paid for labor; the problem just now will be to determine which jobs should be charged for the expenditure . If the weekly payroll was \$150.00 and only one job in progress at this time, the job account would be debited and the cash account credited for \$150.00:

Job	Cash
\$150.00	\$150.00

Supposing that next week another job is started and the payroll is \$250.00. An analysis of the payroll shows that \$200.00 was for Job #1 and \$50.00 was for Job #2. The entry would be:

Job #1	Job #2	Cash
\$200.00	\$ 50.00	\$250.00

The accounts would now appear:

Job #1	Job #2	Cash
\$150.00 200.00	\$ 50.00	\$150.00 250.00

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Each week the job accounts would be debited and the cash account credited.

The pay-roll shall include everyone who is receiving wages or salary from the company. Sometimes the pay-roll does not include all the employees for one reason or another. For example: the owner of the business may wish to keep his own name off the pay-roll, or for confidential reasons may not include the foreman's wages on the general pay-roll. The small contractor need not worry about such matters. He, or some member of his family may keep the books and for that reason no precautions are necessary to insure confidential information.

This chapter will not discuss methods of distributing labor costs to various jobs or parts of jobs, but will merely consider the bookkeeping necessary to properly charge each job its share of the weekly pay-roll.

The reader having already a fair understanding of the theory of double entry bookkeeping, and the effect of transactions on our equation or Balance Sheet, should have no difficulty in making the bookkeeping entries for the pay-roll.

The employees may be classified into three general groups, each of which may be further sub-divided later on. This classification is:

1. Direct
2. Indirect
3. General and Administrative.

#### Direct Labor

Any employee who is working on a specific job shall be considered as one coming under the classification of Direct Labor. If a man's time can be charged to a specific job, the bookkeeping entry should be made accordingly and not to any pay-roll, wages, labor, or salary account.

When work is not available, the employee should be advised that the work is not available.

classified.

The following are the duties of the employee who is receiving wages for salary.

From the company. It includes the following: to receive all the work.

to receive for the work of the company. It includes the work of the company.

any work to keep the work of the company. It includes the work of the company.

any work to keep the work of the company. It includes the work of the company.

any work to keep the work of the company. It includes the work of the company.

any work to keep the work of the company. It includes the work of the company.

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1. Direct
2. Indirect
3. General and Administrative

Direct Labor

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any work to keep the work of the company. It includes the work of the company.

any work to keep the work of the company. It includes the work of the company.

any work to keep the work of the company. It includes the work of the company.



An Illustration

W. Taylor is a carpenter and worked all week laying floors at Job #1.  
His pay is \$55.00

The entry is:

<u>Job #1</u>	<u>Cash</u>
\$55.00	\$55.00

Indirect Labor

Indirect Labor is that part of the pay-roll that is not chargeable to any specific job. It is not unusual to have men doing general work that is necessary for efficient operation of the business but which could not be said to be for any one particular job. Office workers could come under this group, but because there is such a great difference in this type of work and what is considered as Indirect Labor, it will be classified as Administrative.

The man who keeps the warehouse in order is doing Indirect Labor. If a man is kept busy running around from one job to another so that it is impractical to apportion his time to the various jobs, his wages should be considered as Indirect Labor. There should not be a great deal of this kind of work and a reasonable effort should be made to distribute every man's time to some job. If a man has been repairing small tools, his time should be charged to an account that would signify that; such as Maintenance and Repairs of Small Tools. It certainly would be unreasonable to expect a builder to charge a particular job for wear and tear on picks and shovels. This sort of an expense is one that has been accruing for a long period of time and must be considered as a general expense. In a later chapter will be discussed how each job is to carry its proportionate share of this type of expense. Cash paid out for this kind of labor should be

AN ILLUSTRATION

Mr. Taylor is a carpenter and worked all week repairing floors at Job A.

His pay is \$22.00

The entry is:

Cash	Job A
\$22.00	\$22.00

Indirect Labor

Indirect labor is that part of the payroll that is not chargeable to any specific job. It is not unusual to have men doing general work that is necessary for efficient operation of the business but which could not be said to be for any one particular job. General workers would come under this group, but because there is such a great difference in the type of work and what is considered as indirect labor, it will be classified as Administrative.

The men who keep the warehouse in order is doing indirect labor. If a man is kept busy repairing machines, Job A, another as for Job B, is not chargeable to operation at the time of the various jobs, the work should be considered as indirect labor. There should not be a great deal of this kind of work and a reasonable effort should be made to distribute every man's time to what Job A is and has been repairing small tools, etc. also should be charged to an account that we do slightly that such as maintenance and repairs of small tools. It certainly would be unreasonable to charge a building to charge a particular job for work and for no place and expense. This sort of an expense is not that has been accounted for a long period of time and what is considered as a general expense. In a later chapter will be discussed how much Job A is to carry its proportionate share of this type of expense. Goodly held out for this kind of labor should be



charged to an expense account. The name does not really matter as long as it is descriptive of what the money was spent for. Names commonly used are: Maintenance of Miscellaneous Equipment, Maintenance and Repairs of Equipment, or just Maintenance and Repairs. In selecting the account which will be used, much depends upon how much detailed information is desired from the books. Usually there are certain types of equipment that a builder should have accurate and detailed information about and for this reason a separate account should be kept for each piece or group of equipment. A striking example of this is his automobile truck.

If a man was employed to keep equipment in condition that was actually worn out on the job, his cost should be charged to the job. An example of such a case would be when a carpenter spends part of his time filing his saw. Perhaps a better illustration would be a case where a man was kept busy all his time in keeping drills in condition on a job which involved digging out a ledge. These two cases would not be Indirect Labor. They are both Direct Labor and should be charged to the specific job. Wages for truck drivers are usually Indirect Labor. In the chapter dealing with Equipment Operating Expense will be discussed the procedure for handling this part of the pay-roll.

#### Administrative Labor

Under this heading will come all office salaries, and an account "Office Salaries" should appear on the books. If the general manager's salary cannot be apportioned to specific jobs, which is quite often the case, it may be charged to the Office Salaries Account.

Any time that is spent on estimating should be charged to an account by that name.

It is quite possible to have some persons' weekly pay chargeable to more than one of the general groups. As an example: John Pisa worked



charged to an expense account. The man does not really matter as long as it is descriptive of what the money was spent for. Names obviously used are: Maintenance of Miscellaneous Equipment, Maintenance and Repair of Equipment, or Just Maintenance and Repairs. In selecting the account which will be used, much depends upon how much detailed information is desired from the books. Usually there are certain types of equipment that a dealer should have accurate and detailed information about and for this reason a separate account should be kept for each piece or group of equipment. A striking example of this is his automobile truck.

If a man was employed to keep equipment in condition that was actually worn out on the job, his cost should be charged to the job. An example of such a case would be when a carpenter spends part of his time filling his saw. Perhaps a better illustration would be a case where a man was kept busy all time in keeping drills in condition on a job which involved digging out a ledge. These two cases would not be indirect labor. They are both Direct Labor and should be charged to the specific job. Wages for truck drivers are usually indirect labor. In the chapter dealing with Equipment Operating Expenses will be discussed the procedure for handling this part of the pay-roll.

### Administrative Labor

Under this heading will come all office salaries, and an account "Office Salaries" should appear on the books. If the general manager's salary cannot be apportioned to specific jobs, what is left after the case, it may be charged to the Office Salaries account. Any time that is spent on advertising should be charged to an account by this name. It is quite possible to have some persons' weekly pay attributable to more than one of the several groups. As an example: John also worked



48 hours a week, divided as follows:

Carpenter at Job #1	16 hours
" " " #2	4 "
Repairing storehouse	12 "
Estimating new job	16 "
Total	48 Hours at \$1.00 per hour - \$48.00

The above man's pay would be recorded as follows:

<u>Direct Labor</u>	
Job #1	Job #2
\$16.00	\$ 4.00
<u>Indirect Labor</u>	
<u>Maintenance and Repairs of Buildings</u>	
\$12.00	
<u>General and Administrative</u>	
<u>Estimating</u>	
\$16.00	

There are several methods of recording the pay-roll. The one which is the simplest in operation but still gives the desired information will be explained here.

The first step is to make an analysis of the pay-roll. This is in itself a subject worthy of special study and an entire chapter is devoted to it in the discussion on cost accounting. For the present, it will be assumed that this analysis has been made.

This analysis, or distribution as some prefer to call it, may be looked upon as a detailed bill from the employees rendered each week. They have worked from Monday to Saturday and now ask for a payment in cash. The Builder, as a good business man, desires to know what they did that they should submit this bill (the pay-roll). The analysis will show him. Thereupon, each man will be paid with cash and, in accordance

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with the accounting rule, credit the cash account for the amount that he has decreased cash. Previous chapters have shown that there cannot be a decrease in one part of the equation without a corresponding change in some other part. The cash has been decreased. This necessarily implies one or more of the following:

1. Increase in some other asset,
2. Decrease in liabilities,
3. Decrease in capital.

Direct Labor causes #1 "Increase in some other Asset". The effect of paying cash for Direct Labor is to decrease cash and increase the value of the job. Recorded, it would show as follows:

Cash	Job #1
\$500.00	\$500.00

Indirect Labor, and General and Administrative wages of salaries causes #3 "Decrease in Capital". The effect of paying cash for such wages is to decrease cash and decrease capital.

Cash	Office Salaries
\$200.00	\$200.00

Note that in the above, the Capital Account itself is not debited. Office Salaries is an account which is used to collect like or similar debits to Capital Account and hold them in this one account during the accounting period. At the end of the period the total of the account will be transferred to the Capital Account.

with the accounting firm, credit the cash account for the amount paid.  
 he has determined that. However, the firm have shown that there cannot  
 be a balance in one part of the equation without a corresponding change  
 in some other part. The cash has been determined. This necessarily im-  
 plies one or more of the following:

1. Increase in some other asset.
2. Decrease in liability.
3. Decrease in capital.

Direct labor means "Direct labor in some other asset". The effect

of paying cash for direct labor is to decrease cash and increase the  
 value of the job. Therefore, it would show as follows:

Cash	Job #1
\$200.00	\$200.00

Indirect labor, and General and Administrative wages or salaries

means "Overhead in Capital". The effect of paying cash for such  
 wages is to decrease cash and decrease capital.

Cash	Office Salaries
\$200.00	\$200.00

Note that in the above, the Capital account itself is not debited.

Office Salaries is an account which is used to collect items of similar  
 nature to Capital account and paid out in this one account during the  
 accounting period. At the end of the period the total of this account  
 will be transferred to the Capital account.



## CHAPTER XVII

## CONSTRUCTION EQUIPMENT ACCOUNTS

In speaking of construction equipment accounts, the first thing to do is to differentiate between the account representing the piece of equipment as an asset of the business and the account representing the cost of operating that piece of equipment.

An Illustration

A truck is purchased for \$1,000.00 cash. The entry is:

Truck	Cash
\$1,000.00	\$1,000.00

The above account "Truck" is an asset account. It represents the value that will be given to the truck when the Balance Sheet is prepared.

It will not be necessary to open an account for each piece of equipment. Sometimes several pieces of equipment may be grouped together under one account headed "General Equipment". In such case, an inventory should be kept showing each piece of equipment with its value. In other words; if a "General Equipment" account is maintained, there should be a detailed list of what is shown in total in this account.

Gasoline and oil for running this truck is bought. The entry would be:

Truck Expense	Cash
\$15.00	\$15.00

The point to be brought out is that there are two distinct accounts having to do with the truck. One represents the truck itself and shows its value as an asset. The other shows the cost of operating the truck. This is an expense account and is debited because it is recording a de-



# CHAPTER XVII

## CONSTRUCTION EQUIPMENT ACCOUNTS

In speaking of construction equipment accounts, the first thing to do is to differentiate between the account representing the place of equipment as an asset of the business and the account representing the cost of operating that piece of equipment.

### An Illustration

A truck is purchased for \$1,000.00 cash. The entry is:

Truck	Cash
\$1,000.00	\$1,000.00

The above account "Truck" is an asset account. It represents the value that will be given to the truck when the balance sheet is prepared. It will not be necessary to open an account for each piece of equipment. Sometimes several kinds of equipment may be grouped together under one account called "General Equipment". In such cases, an inventory should be kept showing each piece of equipment with its value. In other words, it is a "General Equipment" account is maintained, there should be a detailed list of what is shown in this account. Sometimes and all the remaining this truck is bought. The entry would

Truck	Cash
\$10.00	\$10.00

The point to be brought out is that there are two distinct accounts having to do with the truck. One represents the truck itself and shows its value as an asset. The other shows the cost of operating the truck. This is an expense account and is debited because it is increasing a de-



crease in the worth of the business.

What information is wanted from these accounts? The asset account must show the correct value of the particular piece of equipment for the purpose of the Balance Sheet. The "Truck Operating Account" should show the cost of operating the truck. Most all Builders want to know the cost of operating their trucks, and large numbers want to know the cost of operating many other pieces of equipment. This discussion will apply particularly to that of the truck; but what is said of the truck can be applied to a hoist, cement mixer, or other equipment.

Usually a Builder wants to know more about the cost of running his truck than just the total for the year. He wants to know the cost per mile. He wants to know the cost of gasoline, oil, tires, and repairs. If, month by month, he knows his cost per mile, he knows when to discard the old truck and get a new one. The "guess" is taken out and in its place he has a knowledge of facts. Neither is some high powered salesman going to sell him a car prematurely by telling him that it is cheaper to buy a new truck than to run the old one. A Builder with the facts has the upper hand in the situation particularly when, as in most cases, the truck salesman is merely guessing at cost figures. As in everything else, if the builder wants to KNOW the facts rather than to guess them, he has accounting records to show him the cost per mile for gasoline, oil, tires, repairs and other expenses.

Some business men want to include the truck drivers' wages as part of the cost of operating the truck. This is all right where a man is engaged to run a truck and spends all or most of his time in this capacity. The average builder will not, however, have enough trucking to keep a man busy. If he did, the entry would be:

process in the work of the business.

What information is wanted from these statements? The answer is that  
must show the correct value of the particular piece of equipment for the  
purpose of the balance sheet. The "Truck Operating Account" would show  
the cost of operating the truck. But all Builders want to know the cost  
of operating their trucks, and few members want to know the cost of  
operating many other pieces of equipment. This discussion will apply  
primarily to that of the truck; but what is said of the truck can be ap-  
plied to a boat, cement mixer, or other equipment.

Usually a Builder wants to know more about the cost of running his  
truck than just the total for the year. He wants to know the cost per  
mile. He wants to know the cost of gasoline, oil, tires, and repairs.  
If, month by month, he knows his cost per mile, he knows when to discard  
the old truck and get a new one. The "expense" is taken out and in the  
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going to sell him a car promiscuously by telling him that it is cheaper to  
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the upper hand in the situation particularly when, as in most cases, the  
truck salesman is rarely guessing at cost figures. He is everything else.  
If the Builder wants to know the facts rather than to guess them, he has  
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repairs and other expenses.

Some business men want to include the truck driver's wages as part  
of the cost of operating the truck. This is all right where a man is em-  
ployed to run a truck and spends all or most of his time in this capacity.  
The average builder, however, has enough trucking to keep a man  
busy. If he did, the entry would be:



Truck Expense	Cash
(Drivers Wages) \$25.00	\$25.00

One of the most common errors of bookkeepers as well as builders is to debit the asset account instead of the expense account when an expense has been incurred; or to debit the expense account when an asset has been purchased. Sometimes it is hard to distinguish between the two kinds of transactions. We will discuss a few under three groupings:

- (a) obviously an expense
- (b) obviously a purchase of an asset
- (c) border line cases

#### Expenses

A man buys gasoline. The gasoline is an asset but not for a very long time. One does not stop to record it as such, but merely records that they spent cash for gasoline that will be all gone by the end of the day. The entry:

Truck Expense	Cash
\$2.00	\$2.00

It is better to have a short explanation of each entry as follows:

Truck Expense	Cash
Gas \$2.00	\$2.00 Truck Exp.

Payment of registration fee of \$20:

Truck Expense	Cash
Registration \$20.00	\$20.00 Truck Exp.

Payment of Garage rent:

Truck Expense	Cash
Rent \$8.00	\$8.00 Truck Exp.

Cash	Truck Expense
525.00	

Cash	Truck Expense
	(Debit Balance) 525.00

One of the most common errors of bookkeepers as well as auditors is to debit the asset account instead of the expense account when an expense has been incurred; or to debit the expense account when an asset has been purchased. Sometimes it is hard to distinguish between the two kinds of transactions. We will discuss a few under these headings:

- (a) Obviously an expense
- (b) Obviously a purchase of an asset
- (c) Border line cases

Gasoline

A new type gasoline. The gasoline is an asset but not for a very long time. One does not stop to record it as such, but merely records that they spent cash for gasoline and will be all paid by the end of the day. The entry:

Cash	Truck Expense
25.00	

Cash	Truck Expense
	25.00

It is better to have a short explanation of each entry as follows:

Cash	Truck Expense
48.00 Truck Exp.	

Cash	Truck Expense
	Gas 48.00

Payment of registration fee of \$20:

Cash	Truck Expense
\$20.00 Truck Exp.	

Cash	Truck Expense
	Registration 20.00

Payment of Garin's rent:

Cash	Truck Expense
28.00 Truck Exp.	

Cash	Truck Expense
	Rent 28.00



Payment of repair bill for truck:

Truck Expense		Cash	
Repairs	\$35.00	\$35.00	Truck Exp.

The foregoing entries are for recording transactions that are obviously expenses.

### Assets

Following are some transactions, and the necessary entries, that are obviously the purchase of an asset:

Buy a new truck:

Truck		Cash	
\$1,000.		\$1,000.	Truck

Buy a floor sander:

General Equipment		Cash	
Floor Sander	\$350.	\$350.00	Floor Sander

The above transactions are the exchanging of one asset for another; cash for equipment.

If the truck was purchased as follows, the entry would not be the same:

Purchase price of truck	\$1,000.00
Cash Payment	400.00
Balance Due on notes	600.00

The entry:

Truck		Cash		Notes Payable	
\$1,000.00		\$400.00		\$600.00	
		Truck		Truck	

If it was decided to put on a spare tire which cost \$10.00:

Truck		Cash		Notes Payable	
\$1,000.00		\$1,000.00		\$600.00	
10.00		Truck		Truck	
		10. Tire			

Payment of the bill for truck:

Truck Expenses		Cash	
	Repairs \$5.00		\$5.00 Truck Exp.

The following entries are for recording transactions that are obviously the purchase of an asset:

Assets

Following are some transactions, and the necessary entries, that are obviously the purchase of an asset:

Buy a new truck:

Truck		Cash	
	\$1,000.		\$1,000. Truck

Buy a new building:

General Building		Cash	
	Floor \$500. Roof \$500.		\$1,000.00 Floor Building

The above transactions are the recording of one asset for another: cash for equipment.

If the firm was purchased as follows, the entry would not be the same:

Balance due on notes \$500.00  
 Cash Payment 500.00  
 Truck \$1,000.00

The entry:

Truck		Cash		Notes Payable	
	\$1,000.00		\$500.00 Truck		\$500.00 Truck

It is decided to get on a spare tire which cost \$10.00:

Truck		Cash		Notes Payable	
	\$1,000.00 10.00		\$1,000.00 10.00		\$100.00 Truck



### Border Line Cases

There are some situations in which a question arises as to whether the expenditures are for an asset or on account of an expense. Nearly always a disbursement is for an asset, but if it is for the replacement of an asset that has worn out, it is considered as an expense. The purchase of the replacement is really not the expense. It is the wearing out of the replaced part that is the expense. Strictly what has happened when a tire has been replaced is that the truck has decreased in value and then has been increased again to its original amount by the purchase of a new tire.

Entries to record as it actually happens:

Truck	
New Tire (B) \$10.00	(A) \$10.00 Wear of Tire
Cash	
	(B) \$10. Truck Exp.
Truck Expense	
Wear of tire (A) \$10.00	

Entry as it is recorded:

Truck Expense	
Tire \$10.00	
Cash	
	\$10. Truck Exp.

As can be seen in the above, on the right the Truck Account was credited for the amount of wear on the truck and then, in the second entry, debited for the cost of the tire that replaced the old one. So far as the tires are concerned the truck is back in its original condition and so remains at the same value.

The recording of the entry as shown on the right is the common method and the one which should be used. The credit (a) and the Debit (B), both being to the Truck Account are omitted. The entry leaves the Truck Account in its original condition.

There are some situations in which a question arises as to whether the obligation for an asset or a liability of an enterprise, thereby always a replacement is for an asset, but it is for the replacement of an asset that the asset out, it is considered as an expense. The purpose of the replacement is really not the expense. It is the cost of the replacement that is the expense. Similarly what has happened when a line has been replaced is that the line has been replaced in value and then the line has been replaced in its original condition by the purchase of a new line.

There is no record as it actually

exists as it is recorded:

Truck Expense	
Time \$10.00	
Cash	
\$10.00	

Truck	
New line (A)	\$10.00
Wear of line	\$10.00
Cash	
(B) \$10.00	
Truck Expense	
Wear of line (A)	\$10.00

As can be seen in the above, on the left the Truck Account was credited for the amount of wear on the truck and then, in the second entry, debited for the cost of the line that replaced the old one. So far as the line was concerned the truck is back in its original condition and so remains at the same value. The recording of the entry as shown on the right is the common method and the one which should be used. The credit (a) and the debit (b), both being to the Truck Account are omitted. The entry leaves the Truck Account in its original condition.



Sometimes a worn part is replaced with a more costly part which really makes the truck worth more than its original value. Suppose that the old tires have worn out and that, instead of replacing with the inferior kind that was on the truck at first, they are replaced with better tires. The same kind of tires that have been on the truck could be replaced for \$40.00. It was decided to replace with a better grade and oversize tires at a cost of \$85.00.

The truck so far as tires are concerned is worth \$45.00 more than it was originally worth. Therefore, the entry must show:

- (a) decrease of cash \$85.00
- (b) Increase of truck \$45.00 (increase of value)
- (c) decrease of worth \$40.00 (wear of old tires)

The entries:

Truck		Cash	
\$1,000.00		\$1,000.	New Truck
45.00		85.	Tires
Truck Expense			
Tires	\$40.00		

The test to determine whether to debit the asset account or the expense account is "Does this transaction increase the original value of the asset?" In case of the extra tire, the asset was increased. Replacing worn out tires with better tires did increase the original value to some extent, and so was a debit to the Truck Account for the amount of the increased value and a debit to the Truck Expense Account for the value of the worn out tire.

A suggested form for a Truck Expense Account is submitted at this time. The form is so provided that one can easily obtain the cost of each element of truck expense. That is; instead of knowing merely the total cost of truck expense, this form provides you with an analysis of





this total;

The Form:

TRUCK OPERATING ACCOUNT									
Date	Explanation	Total	Gas	Oil	Tires	Repairs		Misc.	Rental
A	B	C	D	E	F	G	H	I	J

A - Date Column

B - For short explanation

C, D, E, F, G, H, I - Debit Columns

Instead of but one debit column, this form provides for several; one for the total, one for each common type of expense, and one for miscellaneous expenses. The process is to merely place the debit in its appropriate column as well as in the total column. One column (H) was provided to meet special needs; i.e., for the man who wants to charge the Truck Operating Account with the truck driver's wages. Notice that the name of the account is not Truck Expense. This is because column J has been added, which has nothing to do with expense.

It often happens that a Builder has an opportunity to rent his truck. In such a case any income from this source is credited to the Truck Operating Account in the Rental Column. Such a transaction would be a debit to cash and a credit to the Truck Operating Account.

If the truck was continually busy from one job to another, it would be a good plan to charge each job for its proportionate use of the truck





at so much per mile and credit the Truck Operating Account in the rental column.

Column "I" would take debits which are not occurring often but which are very important and often times large amounts. Some of them will be: Registration Fee, Taxes, Garage Rent, Yearly Depreciation, and Insurance.

Some accountants prefer not to combine all this information in one account, but would have separate accounts for each of the classifications mentioned above.

Most Builders for whom this paper is written will be using a truck, while all will not have a cement mixer or a hoist or some other piece of construction equipment. For this reason all of our illustrations in this chapter have been based on a Truck. What has been said of the Truck Accounts can be applied to a Cement Mixer Account or a Hoist Account, and the special form explained for a Truck Operating Account may similarly be used for keeping data on the cost of operating any piece of equipment.

If a business should grow to proportions that it has more than one truck, an account should be kept to record the operating cost of each one. This will serve as a means of comparing costs of the two trucks and, if one is excessive, naturally will be shown up as such.

The matter of properly recording depreciation of construction equipment, as well as all other kind of equipment is so important that it will be discussed fully in another chapter.

at no more for this and credit the Truck Operating account in the

credit column.

Under "I" would take habits which are not occurring often but which

are very important and often at the large amounts. Some of these will be:

Registration fee, License, Garage fee, Monthly Registration, and Insurance.

Some suggestions might not be to include this information in the

account, but would have separate accounts for each of the different

expenses above.

Just before the year ends the year is written up in a ledger

while all will have a credit balance or a debit or some other place of

accumulation of money. For this reason all of our transactions in

this manner have been placed in a Truck, which has been said of the Truck

account can be applied to a general ledger account or a Truck account.

in the special case of a Truck Operating account may also

be used for keeping track of the cost of operation and also of

equipment.

If a business is to be operated it is necessary that it has some one

to keep the account. It will be best to have the account kept by each

one. This will have as a result of keeping track of the two things

and, it will be extensive, naturally will be more so as well.

The matter of properly recording the relation of construction

equipment, as well as all other kind of equipment is an important part

of the business and will be most of the time.



## CHAPTER XVIII

## CASH DISCOUNT

Defined

A cash discount is an allowance made to the purchaser for prompt payment of the invoice. Prompt payment may mean: on receipt of the merchandise, or as is usually the case, within ten days from the date of the invoice.

Importance of Taking Cash Discounts

There are two reasons for taking all cash discounts available. First, it is a big saving and second, those who do not take advantage of them are pointing out to their creditors that there exists a weak financial condition or a profound ignorance of the value of a cash discount.

The usual cash discount is one of 2% if the invoice is paid within ten days from date of the invoice. If the bill is not paid in ten days the full amount is due, usually in thirty days.

Illustration

On March 1st Mr. Wallace bought \$100 worth of lumber from Adams Lumber Company. The terms are quoted as 2/10, n/30. That means that if he pays the bill on or before March 11th, he pays \$98. If he does not pay by March 11th, he is expected to pay on April 1st the full amount of the bill, or \$100. By paying on the 11th (twenty days sooner than the bill is due) he saves \$2.00, 2% of the full amount of the bill. Of course, if he pays on the 11th he does not have the use of

USUALLY WILL

CASH DISCOUNT

Below

A cash discount is an allowance made to the purchaser for prompt payment of the invoice. Prompt payment may mean: on receipt of the merchandise, or as is usually the case, within ten days from the date of the invoice.

Advantages of Cash Discounts

There are two reasons for taking all cash discounts available. First, it is a very saving way to do business, those who do not take advantage of them are pointing out to their creditors that there exists a very liberal condition on a prompt payment of the value of a cash discount.

The usual cash discount is one of 2% if the invoice is paid within ten days from date of the invoice. If the bill is not paid in ten days the full amount is due, usually in thirty days.

Illustration

On March 1st Mr. Wallace bought \$100 worth of lumber from Adams Lumber Company. The terms are stated as 2/10, n/30. That means that if he pays the bill on or before March 11th, he pays \$98. If he does not pay by March 11th, he is expected to pay on April 1st the full amount of the bill, or \$100. By paying on the 11th (twenty days earlier than the bill is due) he saves \$2.00, 2% of the full amount of the bill. Of course, if he pays on the 11th he does not have the use of



that money for the twenty days (March 11th to April 1st). He could leave that money in the bank and probably get interest on it for the twenty days. So, he has his choice of losing the interest and getting the discount; or of losing the discount and getting the interest. He will, of course, choose to let go of that which amounts to the least. Is interest for the twenty days more or less than \$2.00? Based on an annual rate of 6%, he will receive \$6.00 interest by leaving the \$100 in the bank for one year. In the illustration at hand, however, he would not have the opportunity of leaving the \$100 in the bank for one year. The time would be only twenty days, or one-eighteenth of a year. Therefore, the interest that he would receive on the \$100 by leaving it in the bank from March 11 to April 1 would be one-eighteenth of \$6, or thirty-three cents. By taking the 2% cash discount, he saves \$2.00 and loses \$0.33; a net saving of \$1.67.

Another way to look at this is to compute the yearly rate of interest that is equivalent to 2% for twenty days. Since one saves 2% in twenty days, they would at that rate save eighteen times 2% in one year. Therefore, it is important to take advantage of cash discounts. The terms 2/10, n/30, gives an opportunity to invest for twenty days at a rate of interest equivalent to the yearly rate of 36%.

A Builder would not borrow money and pay an annual rate of 36%. Then why do they sometimes pass up opportunities to take advantage of a cash discount? If necessary, they should borrow money so as to enable them to get these discounts.

The concerns with whom they are doing business realize the opportunities that they are passing by, and they know that either one of

that money for the twenty days (perhaps 10% discount) for the  
leave that money in the bank and probably get interest on it for the  
twenty days. So, he has the choice of losing the interest and getting  
the discount or of losing the discount and getting the interest. He  
will, of course, choose to let go of that which amounts to the same.  
is interest for the twenty days and for less than \$2.00. Based on an  
annual rate of 6%, he will receive \$1.00 interest on \$200 for the 200  
in the bank for the year. In the illustration of bank, however, we  
would not have the opportunity of losing the \$1.00 in the bank for the  
year. The 1% would be only twenty days, or one-twentieth of a year.  
Therefore, the interest that he would receive on the \$200 of leaving  
it in the bank from March 11 to April 1 would be one-twentieth of 6%,  
or thirty-three cents. By taking the 10% cash discount, he saves \$1.00  
and loses \$0.33; a net saving of \$0.67.

Another way to look at this is to compute the yearly rate of  
interest that is equivalent to 10% for twenty days. Since one tenth  
of 20 is twenty days, they would be that rate which would give 10% in one  
year. Therefore, it is important to take advantage of cash discounts.  
The bank 10% gives an opportunity to invest for twenty days at  
a rate of interest equivalent to the yearly rate of 6%.

A banker would not borrow money and pay an annual rate of 6%.  
Then why do they sometimes pass up opportunities to take advantage of  
a cash discount? It is because, they are in better money as to the  
this than to get some discount.

The banker with whom they are doing business realizes this opportunity  
realizes that they are passing up, and they know that either one or



two things are wrong. They know that persons not discounting their bills are either awfully short of money, or short of good common business sense. They certainly are going to give that type of man less credit than those who never miss a discount.

### Accounting Entries

When a bill of goods has been received from Job #1, your entry will be as follows:

<u>Job #1</u>	<u>A. C. Adams Co.</u>
\$100.00	\$100.00

When you pay you make the following entry:

<u>Cash</u>	<u>A. C. Adams Co.</u>
\$98.00	\$100.00
<u>Cash Discount Received</u>	
\$ 2.00	

The two entries combined produce the following:

<u>Job #1</u>	<u>A. C. Adams Co.</u>
\$100.00	\$100.00
<u>Cash</u>	<u>Cash Discount Received</u>
\$98.00	\$ 2.00

The second part of the entry was decreasing a \$100 liability by decreasing the Cash \$98.00. This made an increase in the Worth of \$2.00 recorded by a credit in an Income Account.

Another point of view held by many accountants is this: They work on the assumption that the Builder will take all discounts available to him. Instead of setting up a liability of \$100 and charging the Job \$100, they make an entry as follows:

less than a mile away. They now stand between the two buildings. Their  
 walls are either built of stone, or part of good common  
 business houses. They certainly are going to give the type of man  
 less credit than those who have a discount.

Accounting Entries

When a bill of goods has been received from Job 1, your entry  
 will be as follows:

Job 1	
Dr. Job 1	100.00
Cr. A. B. Sales Co.	100.00

When you pay for the following entry:

Dr. Cash	100.00
Cr. A. B. Sales Co.	100.00

Debit Discount Method

\$ 2.00

The two entries combined produce the following:

Job 1	
Dr. Job 1	100.00
Cr. A. B. Sales Co.	100.00
Dr. Cash	98.00
Cr. Job 1	2.00
Cr. A. B. Sales Co.	100.00

The second part of the entry was debiting a \$100 liability by  
 debiting the Cash \$98.00. This entry increases in the Cash or  
 \$2.00 recorded by a credit in an Income Account.

Another point of view held by many accountants is this: They  
 work on the assumption that the Builder will take all discounts avail-  
 able to him. Instead of setting up a liability of \$100 and crediting the  
 Job \$100, they make an entry as follows:



Job #1
\$98.00

A. C. Adams Co.
\$98.00

When amount is paid:

Cash
\$98.00

A. C. Adams Co.
\$98.00

In the first case the Job shows a cost of \$100.00 and an income of \$2.00. The second illustration shows a cost to Job #1 of \$98.00 and no income.

	Cost of Job	Income
First Method	\$100.00	\$2.00
Second Method	98.00	.00

Showing the cost at \$100 will likewise show a profit on the Job of \$2.00 less than if the cost was shown at \$98.00. This lessened book profit is offset by recording the \$2.00 as income.

A. S. Adams Co.	
100.00	

100.00	
100.00	

When amount is paid:

A. S. Adams Co.	
100.00	

100.00	
100.00	

In the first case the job shows a cost of \$100.00 and no income  
 or \$0.00. The second illustration shows a cost to Job A of \$100.00  
 and no income.

Income	Cost of Job	First Method	Second Method
00.00	100.00	100.00	100.00
00.00	00.00	00.00	00.00

Showing the cost at \$100 will likewise show a profit on the job  
 of \$2.00 less than if the cost was shown as \$98.00. This treatment  
 of cost is correct by recording the \$1.00 as income.



## CHAPTER XIX

## DEPRECIATION

Defined

Depreciation is the decreasing in value of assets due to the gradual daily wear and tear on these assets. The amount of wear from day to day is not noticeable, but the total wear over a full year is usually quite noticeable. Some distinction is made by accountants between depreciation and obsolescence. Depreciation is that decreasing in value of the assets due to the wearing out of the assets from actual useage, or as sometimes is the case, due to age. That is, there is sometimes actual wearing out of a machine even though it is not being used. The weather may cause that. Obsolescence is the decreasing value of an asset because it is superceded by an improved type of a similar asset. \*Current assets are not said to depreciate. It is readily seen that the value of those things which we call current assets do not decrease on account of wear and tear or obsolescence. Those assets which do decrease in value through depreciation are the fixed assets, with one exception. Machinery of all kinds decrease in value as a result of both wear and tear, and of obsolescence. An automobile is a good example of that. The one exception is the asset Land. Land is a fixed asset; it does not, or rather it never has up to the present time become obsolete, and it does not wear out (unless you are a farmer). Because it neither wears out or becomes obsolete, it cannot be said to depreciate. Its value may fluctuate either up or down, but this is not depreciation.

\*For distinction between current and fixed assets see Balance Sheet on page .

Definition

Depreciation is the decreasing in value of assets due to the gradual daily wear and tear on these assets. The amount of wear from day to day is not noticeable, but the total wear over a full year is usually quite noticeable. Some statisticians is made by accounting from depreciation and obsolescence. Depreciation is that decreasing in value of the assets due to the wearing out of the assets from actual use, or as sometimes is the case, due to age. That is, there is suggested actual wearing out of a machine even though it is not being used. The wear may cause rust. Obsolescence is the decreasing value of an asset because it is superseded by an improved type of a similar asset. "Current assets are not said to be depreciated. It is really true that the value of these things which we call current assets is not because of an amount of wear and tear or obsolescence. These assets which in business is valued through depreciation are fixed assets, like machinery. Machinery of all kinds decrease in value as a result of both wear and tear, and of obsolescence. Depreciation is a good example of both. The depreciation in the asset itself is a fixed asset; it does not, or rather it never was not in the present time become obsolete, and it does not wear out (because you are a farmer). Because it neither wears out or becomes obsolete, it cannot be said to be obsolete. Its value may fluctuate either up or down, but this is not depreciation. There is a difference between current and fixed assets and between them in



### Necessity of Considering

If a Builder neglects to consider the depreciation of his fixed assets when making estimates or determining costs, he is endangering his chances of business success. Depreciation is just as much an expense as repairing the truck, the telephone charge, or rent. A Builder certainly wouldn't pay out \$50 for rent and make no entry for it. The purchasing of a fixed asset is really prepaid expense. It is the purchase of an asset that will eventually be worth nothing and so, naturally, cannot be shown forever on the books at its original cost.

### Amount of Depreciation

The amount of depreciation is the amount that the asset has decreased in value. This is nearly always an estimate as it is not known what the actual value of a depreciated asset will be until it is sold. It is known, however, that every fixed asset (excepting land) does depreciate to some extent. The amount of the depreciation may be computed by subtracting the estimated present value of the asset from its original value. An illustration: a truck was purchased on January 1 for \$1,000. On December 31 its estimated value is \$700. The amount of the depreciation is \$300.

Original Value	\$1,000.00
Less - Estimated Present value	700.00
Estimated Depreciation	\$ 300.00

How does the above affect the equation?

$$A = L + W \text{ before depreciation is considered}$$

During the year the assets have decreased in value so that the equation is changed to show the assets as being \$300. less than before. Of course, this must be offset by a corresponding decrease on the other side of the equation. This decrease is one to be deducted from the

Amount of Depreciation

If a business negotiates to purchase the depreciable asset at its fair market value, the business is not required to depreciate the asset. However, if the business acquires the asset at a price less than its fair market value, the business must depreciate the asset. The amount of depreciation is determined by the difference between the fair market value and the purchase price. For example, if the fair market value is \$100,000 and the purchase price is \$80,000, the business must depreciate the asset by \$20,000.

Amount of Depreciation

The amount of depreciation is the amount that the asset has lost in value. This is usually determined by the difference between the original value and the current value. For example, if the original value is \$100,000 and the current value is \$80,000, the depreciation is \$20,000. The amount of depreciation is also affected by the useful life of the asset. The longer the useful life, the less the depreciation. For example, if the useful life is 10 years, the depreciation is \$2,000 per year. If the useful life is 5 years, the depreciation is \$4,000 per year.

Original Value	\$100,000
Less: Accumulated Depreciation	(20,000)
Current Value	\$80,000

How does the above affect the business?

A = B + C where Depreciation is calculated

During the year the assets have depreciated by \$20,000. This means that the business has lost \$20,000 in value. This loss is reflected in the business's income statement. The business's income is reduced by \$20,000. This loss is also reflected in the business's balance sheet. The business's assets are reduced by \$20,000. This loss is also reflected in the business's cash flow statement. The business's cash flow is reduced by \$20,000.



Worth as this depreciation has no effect on the liabilities.

### The Balance Sheet

In the Balance Sheet, the asset "Truck" will be decreased by \$300 and likewise the "Worth" section will be decreased a similar amount.

### The Accounts

As the account is merely a place for recording decreases or increases in the assets, liabilities and worth, these decreases will be shown in two accounts. The asset account will be decreased by \$300 and the Worth account likewise. Assets are decreased by a credit entry and Worth account is decreased by a debit entry. In simple Journal form the entry would be

Worth	\$300.00	
Truck		\$300.00

The accounts would appear as follows:

Truck		Worth	
\$1,000.	\$300. Depr.	Depr. \$300.	\$5,000.00

### Depreciation Account

The entry will not be made directly to the Worth account. The above illustration shows the ultimate result. The convenience of subdividing the Worth account was seen in the study of Chapter X. A new account is used to record this type of expense and is titled "Depreciation". So, instead of a debit to Worth account, a debit is made to Depreciation Account.

### Sub-dividing the Asset Account

Most accountants find it preferable to keep a certain section of the asset account reserved for these credits to record depreciation. This may be accomplished by using the upper section of the account for recording the original value or additions to it, or for recording the

North as this distribution has no effect on the liabilities.

The Balance Sheet

In the Balance Sheet, the asset "Trust" will be decreased by \$750 and likewise the "North" section will be decreased a similar amount.

The Income Statement

In the account is made a debit for recording payments or increases in the assets, liabilities and equity, these amounts will be shown in the accounts. The asset account will be increased by \$750 and the North account likewise. Assets are decreased by a credit entry and North account is decreased by a debit entry. In this ledger form

the entry would be  
North  
Trust

\$750.00  
\$750.00

The statement would appear as follows:

North		Trust	
Debit	Credit	Debit	Credit
	\$750.00	\$750.00	
\$750.00			

The Income Statement

The entry will not be made directly to the North account. The above illustration shows the ultimate result. The conversion of the divided the North account was done in the entry of October 1. A new account is made to record this type of expense and is called "Depreciation". So, instead of a debit to North account, a debit is made to

Depreciation account.

The Income Statement

Most accountants find it preferable to keep a certain section of the asset account reserved for these losses to record depreciation. This may be accomplished by using the upper section of the account for recording the original value in addition to it, or for recording the



sale of any asset. The lower section is then used exclusively for recording decreased values due to depreciation. An illustration of the two methods is given herewith.

The truck will serve again for an illustration, showing three years depreciation:

First Method

Truck	
\$1,000.00	\$300.00
	300.00
	300.00

Second Method

Truck	
\$1,000.00	
Reserve for Depreciation	
	\$300.00
	300.00
	300.00

This second method really makes two accounts out of one. Many accountants go so far as to actually make two accounts and have them in separate parts of their ledger. As they are really but one account, this is not the best policy. It will be best to keep them both on the same page with everything at the top excepting these reserve or allowance items, which should be shown separately and at the bottom, headed by the words "Reserve for Depreciation of Truck".

Showing This Reserve on the Balance Sheet

Both the amount as shown in the top section of this account and that of the lower section will be shown on the Balance Sheet. On the asset side will be shown the name of the asset and immediately after it, the value as shown in the top section of the account. On the next line will be written "Less Reserve for Depreciation", and the amount

...of any asset. The lower section is then used exclusively for recording decreased values due to depreciation. An illustration of the two methods is given below.

The figure will serve as a guide for an illustration, showing three years depreciation.

First Method

Assets	
1900.00	1900.00
100.00	
100.00	

Second Method

Assets	
1900.00	
Depreciation	
100.00	
100.00	
100.00	

The second method really shows two amounts out of one. Every accountant as we know is to put every asset in the assets and have a record in separate parts of their ledger. As they are really but one amount, this is not the best policy. It will be best to keep them both on the same page when depreciation of the top asset is a fixed value or when depreciation, which should be given separately and as the following by the words "Reserve for Depreciation of Assets".

Example of the Second Method

Here the amount is shown in the top section of the account and that of the lower section will be shown on the balance sheet. The two cannot side will be under the name of the asset and immediately after it, the value as shown in the top section of the account. In the next line will be written "Less Reserve for Depreciation", and the amount



of this reserve written under the figures representing the original value. The difference is then extended to the right on the same line. The following will illustrate:

#### Balance Sheet

<u>Assets</u>		<u>Liabilities &amp; Worth</u>
Cash	\$600.00	
Truck	\$1,000.	
Less Reserve for depreciation	900.	100.00
		\$700.00

#### Methods of Computing Depreciation

On the past few pages have been discussed the various means of showing depreciation in the accounting records. Nothing was said about how the amount of depreciation is determined. There are many methods of computing depreciation, but for the purpose of the average Builder a discussion of one method is sufficient.

#### Straight Line Method

This method is that of making an estimate of two things:

- (1) the life of the asset, and
- (2) the scrap value of the asset.

Suppose that a cement mixer is purchased for \$600.00. From past experience, it is known that eventually the mixer will be disposed of. When this time occurs it is safe to assume that the resale price will be less than \$600. Instead of waiting until the end of each year to appraise the asset, one reasons along the following lines: The mixer will be traded in on a new one in about ten years and at that time an allowance of \$100.00 can be obtained on it.

When the mixer was purchased, an entry was made debiting an account headed "Cement Mixer" with the purchase price of \$600.00. Following is the account:





Cement Mixer

June 1, 1931	\$600.00	
--------------	----------	--

It is estimated that in ten years the mixer will be worth \$100.00 and it is that figure that the account should show on December 31, 1940. This is accomplished by decreasing the account an equal amount each year so that by the end of ten years it will show \$600.00 less \$500.00. To make ten equal decreases to equal \$500.00 is the proposition. The amount of the annual decreases is in this case \$50.00. The account should be credited at the end of each year as follows:

Cement Mixer

June 1, 1931	\$600.00		
		\$50.00	Dec. 31, 1931
		50.00	" " 1932
		50.00	" " 1933
		50.00	" " 1934
		50.00	" " 1935
		50.00	" " 1936
		50.00	" " 1937
		50.00	" " 1938
		50.00	" " 1939
		50.00	" " 1940

The above is the "Straight Line Method". It is the same amount being credited to the account each year. Of course, the account will be subdivided as was mentioned on page 121. Subdivided, it will appear as follows: (really two accounts)

Cement Mixer

June 1, 1930	\$600.00	
--------------	----------	--

Reserve for Depreciation of Cement Mixer

		\$50.00	Dec. 31, 1931
		50.00	" " 1932
		50.00	" " 1933
		50.00	" " 1934
		50.00	" " 1935
		50.00	" " 1936
		50.00	" " 1937
		50.00	" " 1938
		50.00	" " 1939
		50.00	" " 1940

Current Assets

June 1, 1931 \$100.00

It is estimated that in ten years the mixer will be worth \$100.00 and it is further shown that the account should show on December 31, 1940. This is accomplished by decreasing the account in equal amount each year so that by the end of ten years it will show \$100.00 less \$10.00. To show the equal decrease to equal \$100.00 in ten years. The amount of the annual decrease is in this case \$10.00. The account should be credited at the end of each year as follows:

Current Assets

	June 1, 1931		Dec. 31, 1931
	\$100.00		\$100.00
			10.00
			20.00
			30.00
			40.00
			50.00
			60.00
			70.00
			80.00
			90.00
			100.00

The above is the "straight line method". It is the same amount being credited to the account each year. Of course, the account will be exhibited as was mentioned on page 127. Substituted, it will appear as follows: (really two accounts)

Current Assets

June 1, 1930 \$100.00

Reserve for Depreciation of Current Assets

	June 1, 1931
	\$100.00
	10.00
	20.00
	30.00
	40.00
	50.00
	60.00
	70.00
	80.00
	90.00
	100.00



Record to be made when Asset is disposed of

Refer to page 121 and note that the Asset account and the Reserve for Depreciation of the Asset account, although sometimes in two distinct parts of the ledger are really one and the same account. The "Reserve" or "Allowance for Depreciation" section is merely a subdivision of the Asset account. Many accountants refer to it as a "Valuation Account". The author personally prefers to think of it as a section of the Asset account. When disposing of the asset, the first thing to do is to find the value as per the books of the asset. This is determined by subtracting the amount of the Reserve for Depreciation account from the amount shown in the asset account. For example: Using the same illustration as on page 121, the account will look as follows:

Truck	
\$1,000.00	
Reserve for Depreciation of Truck	
	\$300.00
	300.00
	300.00

The book value of the above is \$100.00

The accounting entry to combine the two accounts, which is the next step is to transfer the Reserve account to the Truck account. This is accomplished by a debit to the Reserve for Depreciation account and a credit to the Truck account for the amount shown in the Reserve account. After this entry, the accounts will appear thus:

Truck	
\$1,000.00	\$900.00
Reserve for Depreciation of Truck	
\$ 900.00	\$ 300.00
	300.00
	300.00
<u>\$ 900.00</u>	<u>\$ 900.00</u>

Account to be used when asset is disposed of

Refer to footnote and note that the Asset account and the Reserve

for Depreciation of the Asset account. Although recorded in two dif-

ferent parts of the ledger, the really one and the same account. The

"Reserve" or "Allowance for Depreciation" section is merely a sub-

dividing of the Asset account. Many accountants refer to it as a "contra-

asset". The student personally prefers to think of it as a section of

the Asset account. When disposing of the asset, the first thing to do

is to find the value as per the books of the asset. This is determined

by subtracting the amount of the Reserve for Depreciation account from

the amount shown in the asset account. For example: When the same

illustration as on page 107, the account will look as follows:

Trial	
	11,000.00
Reserve for Depreciation of Truck	
300.00	
300.00	
300.00	

The book value of the above is \$10,700.00

The accounting entry to combine the two accounts, when is the

next step is to transfer the Reserve account to the Truck account.

This is accomplished by a debit to the Reserve for Depreciation account

and a credit to the Truck account for the amount shown in the Reserve

account. After this entry the accounts will appear thus:

Trial	
	11,000.00
	300.00
Reserve for Depreciation of Truck	
300.00	
300.00	
300.00	
300.00	



The Reserve section, or account, is now balanced and the asset account shows a balance of \$100. There is now a \$100 asset to dispose of. If the truck is sold for \$100, an entry is made debiting cash account and crediting Truck account for the amount. If the truck should be sold for more than \$100, it is evident that during the past three years the asset has been over depreciated and, as a result, the profits under stated. Now, if the truck is disposed of at \$50.00 more than the book value, the Worth account should reflect it. The proper entry, if the truck was sold for \$150 is to debit Cash \$150.00, credit Truck Account \$100.00, and credit Worth Account \$50.00. The accounts would then appear as follows:

Truck		Cash	Worth
\$1,000.00	\$ 900.00	\$150.00	\$50.00
	100.00		
<u>\$1,000.00</u>	<u>\$1,000.00</u>		

In simple Journal entry form it would be:

Cash	\$150.00	
Truck		\$100.00
Worth		50.00

Of course, if the situation was reversed; that is, if the truck brought only \$50.00, the loss would be a charge (debit) to the Worth account.

An entry would be made, closing the Reserve for Depreciation account to the Truck account. The second entry would be:

Cash	\$ 50.00	
Worth	50.00	
Truck		\$100.00

If, instead of cash, we merely received an allowance on the purchase of a new truck, the debit would be to the Truck account, but the





old entries in this account would be all ruled off.

### Small Tools

Small tools decrease in value as do any other fixed assets, but not wholly from depreciation. Any man that has been in the contracting business for any length of time knows that small tools will just disappear. Some are lost and some are stolen. So, with small Tools there are two things to contend with; depreciation and lost items.

It has been found that an appraisal method is the best for recording decreases during the year for small tools. At the end of the year, an inventory is taken of all the small tools and an entry made to bring the account into agreement with this inventory figure,

Supposing that the account "Small Tools" is as follows:

Small Tools	
\$400.00	

On December 31, an inventory is taken and a value placed on each item that is classed as a small tool. The total value is \$300. An entry is then made to decrease the Small Tools account to the inventory figure. This is by a credit entry to the Small Tools account. The debit is made to the Depreciation account. The accounts after this entry:

Depreciation		Small Tools	
Small Tools	\$100.	\$400.00	Depr. \$100.00

### Entries to make at Time of Purchase

Some Builders make the mistake of charging the Job for the cost of any equipment purchased during the construction period. This is absolutely wrong. The correct debit is to the proper equipment account. A Builder recently bought a cement mixer for \$600. He bought it because he needed it on a new Job so charged it to that Job. Now, if

old entries in this account would be all right.

### Small Tools

Small tools decrease in value as do any other fixed assets, but not wholly from depreciation. Any new tool that has been in the workshop for any length of time shows that small tools will just disappear. Some are lost and some are stolen. No, with small tools there are two things to contend with; depreciation and lost items.

It has been found that an systematic method is the best for recording the decrease during the year for small tools. At the end of the year, an inventory is taken of all the small tools and an entry made to bring the account into agreement with this inventory figure.

Suggesting that the account "Small Tools" is as follows:

Small Tools	
	\$400.00

On December 31, an inventory is taken and a value placed on each item that is placed as a small tool. The total value is \$300. An entry is then made to decrease the Small Tools account to the inventory figure. This is by a credit entry to the Small Tools account. The debit is made to the Depreciation account. The accounts after this entry:

Depreciation		Small Tools	
	\$100.00		\$400.00
		Debit	\$100.00

### Machine in use at time of purchase

Some Builders make the mistake of charging the job for the cost of any equipment purchased during the construction period. This is absolutely wrong. The correct debit is to the proper equipment account. A Builder recently bought a cement mixer for \$500. He debited it to the job he needed it on a new job so charged it to that job. Now, if



the mixer was all used up on that Job, it would have been perfectly all right to charge that Job for the cost, but we all know that when a contractor buys a cement mixer, he plans to use it on many Jobs. Charging this Job \$600.00 overstated that Job's cost and likewise understated the costs of all Jobs later that were not charged anything for the mixer, even though they used it just as much as the first Job.

the mixer was all used up on that job, it would have been necessary  
all right to arrange that the new one be sent, but we all know that when  
a contractor buys a cement mixer, he plans to use it on many jobs.  
According to the job 1000.00 represented that Job's cost and likewise  
represented the price of all jobs later that were not charged anything  
for the mixer, even though they used it just as much as the first job.



## CHAPTER XX

## ESTIMATING

This paper does not propose to cover the subject of estimating, but as one of the purposes of accounting is to check the actual costs with the estimated costs, it seems to the author that the paper would be incomplete without at least a brief discussion of the subject.

Mr. Frank R. Walker, author of "The Building Estimator's Reference Book", says in the first chapter of his book, "There is no cost data as good as that compiled by yourself providing it is correct".

So, because there is such a close relationship between cost accounting and estimating, parts of the first chapter of Mr. Walker's book are herewith inserted with his permission: \*

"Estimating is one of the most important factors in the contractor's business because in ninety-nine cases out of a hundred it is necessary to submit an estimate on the cost of a job before the contract is awarded. If the estimate is too high, the job goes to a competitor, and, if too low, the contractor who is awarded the contract must complete it without profit if not at an actual loss in both time and money."

"There are thousands of contractors in business today who are no better off than they were ten or twenty years ago because they take work so low they are barely able to make a living; many of them in fact, would be far better off if they worked for "day-wages" for a competent contractor. These contractors not only ruin the business for competent builders but they are not improving their own condition."

\* Walker, Frank R., The Estimator's Handbook, Chap II.

ESTIMATING

This paper does not propose to cover the subject of estimating.

but as one of the purposes of accounting is to check the actual results with the estimated results, it seems to the author that the paper would be incomplete without at least a brief discussion of the subject.

Mr. Frank B. Gilman, author of "The Building of a Business

Book", says in the first chapter of his book, "There is no such thing

as a book as that compiled by accountants. Nothing is so correct."

No. because there is such a close relationship between the account-

ing and estimating parts of the first chapter of Mr. Gilman's book

are somewhat inserted with his permission:

"Estimating is one of the most important features in the conduct-

ing of business because in almost every case out of a hundred it is

necessary to submit an estimate on the cost of a job before the job

is started. If the estimate is too high, the job goes to a

competitor, and, if too low, the contractor who is awarded the contract

must estimate it himself. It is not so much a matter of fact as it is

and policy."

"There are thousands of contractors in business today who are no

better off than they were ten or twenty years ago because they take

work on low bids and thereby add to their losses; many of them in

fact, would be far better off if they worked for 'the man' for a

competent contractor. These contractors not only ruin the business

for contractors but also ruin their own reputations."



"Sometime ago, while talking to an official of one of the large Chicago retail lumber concerns he said, 'Walker, you would be surprised to see the number of contractors that we are obliged to carry on our books from three to six months. Their intentions are good and they pay us eventually, but always by paying a little on account from time to time. If they were obliged to stop work and pay their bills, about ninety per cent of them would be forced out of business'. This condition applies not only to Chicago, but to every city and town in the country".

"It is an unfortunate condition, but it is true nevertheless, that contractors (as a class) are not considered good business men. This is due to a number of causes, but chiefly to the fact that so many contractors are men who have "risen from the ranks"; and although they were exceptional mechanics, foremen or superintendents themselves, and possessed a thorough understanding of how the work should be done, they were sadly lacking in business training and the ability to estimate the cost of their work accurately. As an example, let me quote from a speech delivered at a convention of builders by Mr. W. L. Thompson, Vice-president of the First National Bank of Portland, Oregon. He said, "The average contractor's account is not particularly attractive to the bankers. I think there are well-defined reasons for this attitude. I do not say that the contractor is entirely to blame; I believe the banker is partially to blame. But that attitude has been brought about by the looseness of methods of so many men who are engaged in the contracting business. I am sure that the average contractor's account could be made much more attractive if this looseness of method were eliminated. I refer particularly to the looseness with which your accounting systems are maintained."

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to see the number of contractors that we are obliged to carry on our  
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"It is an unfortunate condition, but it is true nevertheless, that  
contractors (as a class) are not regarded as good business men. This is  
due to a number of causes, but chiefly to the fact that so many con-  
tractors are men who have "risen from the ranks"; and although they were  
exceptional men, before or during their own careers, and  
possessed a thorough understanding of how the work should be done, they  
were rarely lacking in business training and the ability to estimate the  
cost of their work accurately. As an example, let me quote from a  
speech delivered at a convention of Builders by Mr. J. J. Thompson,  
Vice-President of the First National Bank of Chicago, Chicago. He  
said, "The average contractor's account is not particularly attractive  
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could be made much more attractive if this looseness of method were  
eliminated. I refer particularly to the looseness with which your  
contracting system are maintained."



"My observation over a period of years in the banking business has been that most failures in all lines of business can be definitely traced to loose methods and the fact that the man in charge of the business did not know where he was at".

"This is further emphasized by the remarks of the manager of a large bonding and insurance company. During the course of our conversation the writer inquired just what these companies considered the first and most important requisites of the individual contractor or corporation desiring a surety bond."

"The following are his answers in the order of their relative importance:

First: The ability of the party requesting the bond. Whether or not he understands his business thoroughly. Is he capable of preparing a correct estimate or if he employs an estimator. Is he capable of checking the estimator's figures and judgement.

Second: The general reputation of the contractor for honesty, meeting his financial obligations promptly and his reputation among those with whom he does business.

Third: The financial ability of the contractor. Whether he possesses sufficient capital to carry on his business efficiently, meet his pay-rolls, current expenses, etc. "

"You would be surprised", he said, "to see some of the estimates that are brought to our office to pass on, and the contractor really expects us to go on his bond on the strength of them. Just recently a contractor came to my office and wanted my company to go on his bond covering the construction of a certain building. Upon asking for his estimate covering the contemplated work, he pulled an old, soiled envelope from his inside pocket with a few figures on the back of it

My observation over a period of years in the banking business has been that most failures in all lines of business are the result of failure to know methods and the fact that the man in charge of the business did not know where he was at.

"This is further supported by the remark of the manager of a large banking and insurance company. During the course of our conversation this man stated that when these companies organized the first and most important department of the individual contractor or corporation was keeping a ready hand."

"The following are his answers in the order of their relative

importance:

First: The ability of the party representing the bank, whether or not he understands his business thoroughly. Is he capable of preparing a correct estimate or is he capable of estimating. Is he capable of checking the contractor's figures and judgment.

Second: The general reputation of the contractor or company, seeing his financial obligations promptly and his reputation among those with whom he does business.

Third: The financial ability of the contractor. Whether he possesses sufficient capital to carry on his business efficiently, meet his pay-rolls, current expenses, etc."

"You would be surprised," he said, "to see some of the estimates that are brought to our office to pass on, and the contractor really expects us to go on his word as the strength of them. Just recently a contractor came to my office and wanted my company to go on his bond covering the construction of a certain building. Upon asking for his estimate covering the contemplated work, he pulled an old, soiled envelope from his inside pocket with a few figures on the back of it



and said that was his estimate. Perhaps he had "cubed" the cost-- not more-- and then we wonder why contractors "go broke".

"Sometime later the writer was talking with the manager of the Surety Bond Department of another large Bonding Company. During the course of our conversation he said, "You know the bonding company seldom gets the opportunity of bonding the best contractor. It is always the lowest bidder and in a majority of instances the lowest bidder is the weakest financially because some of them have to take work at any price in order to exist. Again it is due to mistakes in estimating caused by carelessness or ignorance of the proper method of preparing correct estimates".

"The above instances are cited merely to illustrate the fact that somebody besides the contractor really attaches importance to a correct and detailed estimate. A well prepared estimate has just as much to do with the success of a contractor as the manner in which he purchases his materials, lets his sub-contracts or handles his work on the job."

"Too much emphasis cannot be placed upon the necessity of measuring and listing the quantities from the plans as carefully and as systematically as possible. They should be listed as much in detail as is consistent with sound construction policy. The methods used by many contractors in "lumping" their estimates is a very serious mistake for it takes the estimator or contractor away from the fundamental principles of construction and gives the wrong perspective regarding the importance of his estimating."

"What is the Correct Method of Preparing an Estimate?"

"If twenty different estimators or contractors were furnished the same set of plans and specifications and told to prepare a detailed

and said that was his estimate. I would like to see the  
get more-- and then we would say contractors "go broke".

"Sometimes later the writer was talking with the manager of the

Heavy Iron Department of another large building company. During the

course of our conversation he said, "You know the building company

salmon gets the opportunity of bidding the best operator. It is an

ways the lowest bidder and in a majority of instances the lowest bidder

is the weakest financially because some of them have to take work at

any price in order to exist. Again it is due to mistakes in estimating

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somebody besides the contractor really attaches importance to a correct

and detailed estimate. A well prepared estimate not just as much to do

with the success of a contractor as the manner in which he prepares

the estimate, for his sub-contractors or suppliers also work on the job."

"Two main emphases cannot be placed upon the necessity of accurate

and listing the quantities from the plans as accurately and as

systematically as possible. They should be listed in such a detail as

is consistent with sound construction policy. The methods used by

many contractors in "lumping" their estimates is a very serious mistake

for it takes the estimator or contractor away from the fundamental

principles of construction and gives the wrong perspective regarding

the importance of his estimating."

"That is the correct method of preparing an estimate."

"If twenty different estimates or contractors were furnished the

same set of plans and specifications and told to prepare a detailed



estimate of the cost from same so that the different methods be compared and checked, it is pretty safe to assume that there would not be more than two estimates in the entire twenty that had been prepared on the same basis or from the same point of view."

"This is wrong. Why should there be such a variation in methods with only one result to be obtained? It is due to the absence of a uniform method of estimating; the lack of complete detailed information regarding the cost of the work to be performed with the result that each contractor has developed a system of his own, making it almost impossible for one contractor to check another's figures. This usually results in the "successful" bidder being so ridiculously low that if awarded the contract he will be compelled to complete it at a loss or he will be so unreasonably high as to be completely out of the "running". In nearly every instance there are three or four bids that are very close and consistent throughout and upon checking these estimates, it will be found that the quantities have been taken off and listed in detail and with the utmost care consistent with sound construction practice. "

"When measuring the plans and listing the quantities on the estimate sheet preparatory to pricing and making up the estimate, it is important that the quantities of the different kinds of work should be estimated so far as practical in the same manner in which the work will be constructed on the job. It is only by observing and learning the costs of the various operations on the job that the estimates will prove dependable."

"As previously mentioned, the practice of "lumping" an estimate is not only a serious mistake but sooner or later it will cause the user a substantial loss, perhaps one that will put him out of business



estimate of the cost from some of the different methods be compared and checked, it is pretty safe to assume that there would not be more than two estimates in the entire twenty that had been prepared on the same basis or from the same point of view."

"This is wrong. Why should there be such a variation in methods

with only one result to be obtained? It is due to the absence of a uniform method of estimating; the lack of complete detailed information regarding the cost of the work to be performed with the result that each estimator has developed a system of his own, making it almost impossible for one estimator to check another's figures. This casual result in the "haphazard" manner being so ridiculously low that it would be surprising if it will be regarded as complete. It is as if one will be so unreasonably high as to be completely out of the "range". It is nearly every instance where one time is four times that are very close and consistent throughout and upon checking these estimates, it will be found that the quantities have been taken and listed in detail and with the usual care consistent with sound construction practice."

"When examining the plans and listing the quantities on the estimate must necessarily be given and making up the estimate, it is important that the quantities of the different kinds of work should be estimated so far as practical in the same manner in which the work will be constructed on the job. It is only by observing and listing the costs of the various operations on the job that the estimate will prove reasonable."

"As previously mentioned, the practice of 'padding' an estimate is not only a serious mistake but sooner or later it will cause the contractor to lose, because one that will not win the bid or business



entirely. In more than one instance a life's work has been ruined to save an hour or two in the preparation of an estimate, Is it worth the price?"

"Take as an example of this practice, a section of wood floor for an ordinary building. This floor consists of wood joists, bridging, sub-flooring, deadening felt or building paper, and the finish flooring. Many contractors will price this work at a certain price per square foot of floor including all of the different items mentioned above."

"To construct a floor of this kind there are five different materials and labor operations necessary to complete same. First, the wood joists must be cut to lengths and placed in position in the building; the bridging is placed between the joists, the sub-flooring or sheathing is then placed; and when the finishing of the building is under way, the deadening felt or building paper is laid and the finish flooring is placed upon the same."

"Each of the above is a distinct labor operation and should be priced as such because in this way it is possible to check up the job costs during construction and compare estimated and actual costs on any class of work. This enables the contractor to tell where the money is being made or lost and should prevent losses on any future work."

"Where the various items are lumped it requires very little variation to make a difference of 5 to 10 per cent in the estimate, and this is often the total profit on the job."

"The old saying, "Better be safe than sorry" is one that can be followed to advantage by every building estimator."

entirely. It would then be impossible to find a single word which has been retained to save an hour or two in the preparation of an article. It is at least one

principle

"Take as an example of this practice, a section of wood floor for an ordinary building. This floor consists of wood joists, bracing, and flooring. A standard felt or building paper, and the finish floor. Many contractors will give this work at a certain price per square foot of floor including all of the different items mentioned

above."

"To construct a floor of this kind there are five different materials and labor operations necessary to complete same. First, the wood joists must be cut to length and placed in position in the building; the bracing is placed between the joists, the end-bracing or covering is then placed; and when the finishing of the building is under way, the building felt or building paper is laid and the finish flooring is placed upon the same."

"Each of the above is a distinct labor operation and should be priced as such because in this way it is possible to check up the job costs during construction and not have estimated and actual costs in any kind of conflict. This enables the contractor to tell where the saving is being made or lost and should prove losses in very direct manner."

"When two workers from one firm do a job of very little value, then it makes a difference of 5 to 10 per cent in the estimate, and this is often the total profit of the job."

"The old saying, 'Better to sell than sorry' is one that can be followed to advantage by every building contractor."



"Estimating the Contractor's Overhead Expense".

"The item of overhead expense is one that has long been neglected by most contractors, but it is a matter of such importance that every contractor should give it careful consideration."

"Every contractor has a certain fixed expense that must be paid regardless of the amount of work done or contracts received, and these items should be listed under the heading Overhead Expense."

"This should include such items as office rental, fuel, lights, telephone and telegraph, stationery and office supplies, advertising, trade journals and magazines, donations, legal expenses not directly chargeable to any one job, fire and liability insurance for the office, club and association dues, office employees, such as bookkeeper, stenographer, clerks, estimator, and salaries of executives."

"The above items should be estimated for a year and then reduced to a certain percentage of the total amount of business handled annually, as follows:

Office Rental .....	\$ 900.00
Advertising .....	75.00
Fuel and Light .....	150.00
Charity .....	50.00
Telephone and telegraph .....	125.00
Books and Magazines .....	30.00
Legal Services .....	100.00
Bookkeeper .....	1,800.00
Stenographer .....	1,200.00
Estimator .....	3,600.00
Executive Salaries .....	6,000.00
Stationery, Office Supplies, Etc. ....	250.00
Fire Insurance, Office Liability Insurance .....	50.00
Club dues .....	100.00
Miscellaneous Expense .....	500.00
	<hr/>
	\$ 14,930.00

"The list as given above is much larger than the smaller contractor will have and considerably less than the overhead carried by the larger contractors, but it will serve an example of the items that

"The item of overhead expense is one that has long been reported

by most contractors, but it is a matter of such importance that every

contractor should give it careful consideration."

"Every contractor has a certain fixed expense that must be paid

regardless of the amount of work done or receipts received, and these

items should be listed under the heading 'Fixed Expense'."

"This should include such items as office rent, heat, light,

telephone and telegraph, advertising and office supplies, etc."

"Books, journals and magazines, donations, legal expenses and similarly

other items to any one job, time and liability insurance for the office,

also and association dues, office expenses, such as postage, etc."

"The above items should be estimated for a year and then related

to a certain percentage of the total amount of work as follows:

as follows:

Office Rental .....

Advertising .....

Heat and Light .....

Telephone .....

Books and Magazines .....

Legal Expenses .....

Postage .....

Stationery .....

Office Supplies .....

Time Insurance .....

Office Expenses .....

Telephone .....

Books and Magazines .....

Legal Expenses .....

Postage .....

Stationery .....



should be considered in the light of overhead or general expense."

"Suppose, for example, that the firm having an overhead expense of \$15,000.00 per year, carries on an annual business approximating \$500,000.00. On the above basis the overhead or general expense of carrying on the business would average 3 percent of the total amount of business transacted per annum."

"With some concerns the overhead may run 3 percent and with others 8 to 10 percent of the total volume of business, but every contractor can approximate his overhead based on his average yearly business. Even an approximate is far better than not making any attempt in this direction."

"With many smaller contractors who do not maintain an office and probably attend to the greater part of their office work themselves, only such items of expense as they actually have should be taken into consideration."

"The following schedule is one presented at a meeting of the Associated Building Contractors of Illinois, and is based on a contractor doing a \$50,000.00 annual business. You will note this schedule runs the overhead expense up to 16 $\frac{1}{2}$  percent of the total business done."

Executive's (Contractor's) salary .....	\$3,600.00
Estimator's Salary .....	
Rent .....	600.00
Plant Depreciation .....	600.00
Furniture and Fixture Depreciation .....	20.00
Cost Keeping and Bookkeeping .....	780.00
Interest on Equipment (Investment) .....	180.00
Yard and Tool Man .....	321.00
Stationery .....	25.00
Advertising .....	200.00
Interest on Borrowed Money .....	600.00
Office Supplies, Telephone, Telegram, Postage .....	125.00
Business Travels .....	100.00
Automobile Upkeep .....	600.00
Taxi Fares .....	

should be considered in the light of overhead or general expenses."

"Suppose, for example, that the firm having an overhead expense

of \$12,000.00 per year, carries on an annual business approximating

\$200,000.00. On the above basis the overhead or general expense of

carrying on the business would average 6 percent of the total amount

of business transacted for account."

"With some expense on overhead and 6 percent and with others

2 to 10 percent of the total volume of business, but every business

can approximate this overhead factor on its various yearly business.

Even an approximate is far better than not making any attempt to take

account."

"This may appear contradictory and so not maintain an office and

probably result in the greater part of their office work themselves,

only such items of expense as they actually have would be taken into

consideration."

"The following schedule is one presented as a basis of the

Associated Building Contractors of Illinois, and is based on contract-

or doing a \$50,000.00 annual business. You will note this schedule

shows the overhead expense up to 15 percent of the total business done."

Executive's (Contractor's) salary .....	\$1,000.00
Executive's salary .....	500.00
Office rent .....	200.00
Office telephone .....	100.00
Office janitor and messenger .....	100.00
Office heating and lighting .....	100.00
Interest on equipment (investment) .....	200.00
Travel and hotel bills .....	100.00
Stationery .....	50.00
Postage .....	50.00
Interest on borrowed money .....	100.00
Office supplies, telephone, postage .....	100.00
Business travelers .....	100.00
Interest on bonds .....	100.00
Total .....	\$2,000.00



Charity .....	\$ 50.00
Business Insurance .....	30.00
Legal Expenses .....	50.00
Tool and Equipment Maintenance .....	150.00
Teach and Motor Truck Depreciation.....	<u>300.00</u>
Total Administrative Overhead .....	\$8,331.00

"Should the Contractor's Overhead Expense be added to his Estimate?"

"Any contractor who attempted to add this percentage to his bid would undoubtedly remain without work for a long time--probably until his capital was exhausted,--but there is no doubt that the contractor is entitled to a certain amount of overhead expense that should not come out of the "profits" of the business."

"All manufacturers, jobbers, and retailers add their overhead expense to the cost of their products when computing the selling price and there is no reason why contractors should not do the same----- except that the man who "doesn't" probably will get the job."

"It is not the general practice amount contractors to include their office overhead as a portion of the cost of the job--in fact many contractors do not even figure job overhead when making up their estimate,-- so until this practice is more generally adopted by contractors, it will not be safe to add for this item, especially on work let on competitive figures."

#### "Office Furniture and Equipment"

The item of office furniture and equipment should not be charged as an overhead expense but should be carried as an equipment account."

"All moneys expended for office furniture, typewriters, calculating machines, filing cabinets, etc., should be kept as a separate account and a certain percentage of this amount charged off each year as depreciation on equipment. The depreciation, however, should be





charged as a portion of the overhead expense of carrying on the business, as the cash value of the equipment decreases each year."

#### Construction Plant and Equipment"

The money invested in construction plant and equipment should not be charged to the Overhead Expense account of doing business because this account represents tools and equipment that have a cash value."

"When machinery or equipment is purchased it should be charged to this account and as it is used on the different jobs, each job should be charged with a rental or proportionate share of the cost."

"Each year a certain amount of depreciation should be charged off because as the equipment gets older its value is less, but each job on which it is used should pay its proportionate share of the cost of the equipment used."

#### "What Percentage Should the Contractor Add for His Profit?"

The author frequently receives letters from contractors in various parts of the country, asking what percentage should be added to the actual estimated cost for profit."

"Every time I make up an estimate I debate that question to myself--not how much I should add or how much I am legitimately entitled to, but how much can I safely add and still be in the running to receive the contract?"

"As an illustration of this point, just recently I prepared an estimate and submitted a bid on an automobile sales and service station on which my estimated actual cost was something over \$64,400.00 which included my job overhead expense, but no office overhead. I added \$5,600.00 for profit on the job, making my proposal \$70,000.00. The low bidder was \$68,000.00, but I had no way of telling whether his estimated cost was lower or whether he worked on a smaller margin of

charged as a portion of the overhead expense of carrying on the business, or the value of the equipment decreases each year."

Overhead Expense and Equipment

The money invested in construction plant and equipment and its cost is charged to the Overhead Expense account of the business because this account represents both the equipment and its cost value."

"When machinery or equipment is purchased it should be charged to this account and as it is used on the different jobs, each job should be charged with a portion of the depreciation of the cost."

"When a certain amount of depreciation should be charged to the equipment, the equipment gets older its value is less, but each job on which it is used should pay its proportionate share of the cost of the equipment used."

What percentage should the contractor add for his profit?

The answer frequently received is that the contractor is various parts of the company, making what percentage would be added to the actual cost of the job."

"Every time I hear of a contractor I think of the question of the profit--not how much I should add or how much I am legally entitled to, but how much can I really add to the cost of the job in the business?"

"The estimation of this profit, just recently I received an estimate and submitted a bill on an automobile repair and service station on which my estimated actual cost was about \$10,000.00. I added 10% to the overhead expense, but no office overhead. I added \$2,000.00 for profit on the job, making my proposal \$12,000.00. The job order was \$10,000.00, but I had no way of telling what the estimated cost was for the job or whether he would be a better job or not."



profit."

"On another job on which I had the privilege of seeing the bids, one was for \$20,500.00, another \$21,500.00, and my estimated actual cost was \$19,500.00, and, adding 10 percent, or \$1,950.00, for profit my bid was \$21,450.00. The low bidder received the contract at \$17,500.00, and he had evidently figured on making a profit on the job. Whether he was able to do the work that much cheaper than three other contractors who submitted higher bids, or whether he made a mistake in his estimate, will only be known by the low or "successful" bidder after he completed the contract!"

"For the reason given above, there is no rule by which a contractor can add a fixed percentage for profit. It all depends upon the local competition and the conditions surrounding the job."

"On small jobs, alterations, remodeling, and similar work, I think a contractor is justified in adding 20 to 25 percent to his actual cost for profit, but whether he is able to obtain this amount is a matter for each contractor to decide for himself."

"On new work, where it is possible to estimate the work to be performed with a fair degree of accuracy, a contractor is entitled to 10 percent on the actual cost of the work (job overhead) included in the actual cost of the job. Thus, if the estimated actual cost is \$10,000.00, the contractor is legitimately entitled to 10 percent or \$1,000.00 profit on the job. The larger the job the greater the risk and the larger the profit to which the contractor is entitled, as a job costing \$50,000.00 should have \$5,000.00 added for profit, etc."

"Should Anything be Added to the Estimate for Contingencies?"

Another item on which there has been considerable discussion is, should a contractor add a certain percentage to his estimate to take





care of contingencies? Yes and no."

"Yes,--because by doing this it is not necessary to be quite so careful in the preparation of the estimate, and if any items have been overlooked, there is an allowance to take care of the items omitted. But a contractor who is not careful in the preparation of his estimates, never knows how much he should add to take care of the forgotten items commonly termed "contingencies"."

"No,--because if you do add a percentage for contingencies, it is 10 to 1 that your competitor has not added it to his estimate -- and the result is you lose another job."

"The best rule to follow is, be careful as possible in listing the items from the plans, include everything that you will have to furnish, be as accurate as possible in computing your material and labor costs, including your job overhead expenses, and then to this estimated actual cost add one legitimate profit."

"The Importance of Complete, Detailed Estimates."

The author has never found any of the so-called "short-cuts" in estimating that were accurate enough to use in competitive bidding. They are probably all right when making up preliminary estimates or when an approximate figure is wanted, but when submitting a proposal on a job that you are anxious to get--at a profit--figure the work in as much detail as is necessary to obtain accurate labor and material costs."

"When figuring floors by the square foot, including joists, bridging, underflooring, deadening felt, durring strips and finished flooring, how are you to make an accurate allowance for joists doubled under partitions and allow for the extra joist required at the end of each bay? How are you going to estimate the correct number of studs re-

case of "unemployment" the law is.

"Yes," answered by John. "It is not necessary to be paid to

cancel in the preparation of the matter, and it is not necessary to

overlook, there is an allowance to the end of the law.

But a contractor who is not careful in the preparation of his contract,

never knows how much he should add to the cost of the work, and

consequently makes "mistakes".

"No," because if you do not add a proper margin for contingencies, it is

to be a great opportunity and not added to the margin -- and

the result is you lose money too."

"The best rule to follow is, be careful as possible in making

the item from the plans, include everything that you will have to

include, be as accurate as possible in estimating your material and

labor costs, including your job overhead expenses, and then to this

estimated amount add one-fifth for profit."

"The Importance of Good Estimates, Detailed Estimates"

The engineer has never found any of the so-called "short-cuts" in

estimating that have ever made him in a competitive situation.

They are probably all right when making the preliminary estimates of

when an approximate figure is wanted, but when making a proposal

on a job that you are anxious to get -- at a profit -- figure the work in

as much detail as is necessary to obtain accurate labor and material

costs."

When figuring claims by the square foot, including labor, material,

and subcontracting, including fuel, heating, water and electric light,

and how you can make an accurate estimate for labor, material and

subcontracting and allow for the extra labor required at the end of each

day. This is the only way to estimate the correct amount of claims to



quired for a partition, when they may vary from 6 to 16 feet in length, and from 8 to 12 feet in height, and require doubling around openings and some single and some double top plates? The only accurate way is to take the number of plates and studs required for each partition. It takes a little more time, but when you KNOW you are right, and you are not subject to a variation of 5 to 10 percent in your estimate, which means that you may be either that much too low or too high on the job. If it is worth figuring--and you want the job--figure it right.

Short cuts in estimating have probably "Broke" 10 contractors to every one they have made money for. If you don't care whether you make or lose money on your jobs, then use "short-cuts"--but use care in preparing your estimate if you are in the business for something else beside your health."

"There is no cost data as good as that compiled by yourself"-- providing it is correct. You are familiar with the jobs and know under what conditions each piece of work was performed so for that reason your own costs should be best."

joined for a particular, and they may vary from 6 to 12 feet in length,  
and from 6 to 12 feet in height, and require double or triple  
and some single and some double top jackets. The only way to  
is to have a number of plates or studs required for each  
It takes a little more time, but when you have your  
are not subject to a variation of 1 to 10 percent in your  
which means that you may be richer than most or you may be  
the job. It is a very light job--and you want the job--it is  
right.

There is no estimating how much money is  
every one they have made money for. It is not a case where you  
also or lose money on your job, but you are "not-in" and you are  
is preparing your estimate if you are in the business for something  
also besides your profits."

There is no doubt that as much as is made by  
production is in excess. The one factor is the job and how  
under what conditions and how it was performed on the job  
before your own credit should be lost."



## CHAPTER XXI

## COST ACCOUNTING - INTRODUCTION

In chapter II was summarized what information the Builder expected to get from his accounting records. It was stated as follows:

- I. What is the business worth?
  1. What does the business own?
  2. Who owes the business money?
  3. To whom does the business owe money?
- II. How much profit has the business made?
  1. How was it made?
    - (a) The cost of each job.
    - (b) The cost of each operation.

The next chapters will discuss II.

Rightfully this may be called cost accounting, as cost accounting is that branch of accounting that specializes in the art of determining the cost of making things.

In view of the experiences of manufacturers during the past twenty years, very little need exists for argument to show the advantages accruing to those using cost accounting. Production has been made more efficient in almost every type of industry, and this has been in no small measure due to the fact that the production managers have had adequate cost accounting systems. Twenty years ago the cost accountants were scoffed at and told that they were making exaggerated claims. Today their point has been proven. It may be interesting to note at this time that the pioneers in factory cost accounting are now pioneering in another field, that of sales costing. They have seen the benefits of knowing their costs in the factory and now anticipate further economies by knowing what it costs to sell each item of merchandise.

THEORY OF THE FACTORY

In chapter II we considered what information the factory manager  
to get from his accounting records. It was stated as follows:

- I. What is the business worth?
2. What does the business cost?
3. What does the business earn?
4. To whom does the business owe money?

- II. How much profit has the business made?
1. How was it made?
2. The cost of each job.
3. The cost of each operation.

The next chapter will discuss II. 1.

Obviously this may be called cost accounting, as cost accounting  
is that branch of accounting that specializes in the cost of manufacturing  
the cost of making things.

In view of the experience of manufacturers during the past twenty  
years, very little need exists for argument to show the advantages  
attaching to those using cost accounting. From within the plant itself  
evidence is obtained every day of industry, and this has been in no  
small measure due to the fact that the production managers have had  
available cost accounting systems. Twenty years ago the cost account-  
ants were regarded as men who told them what they wanted to hear.  
Today their point has been proved. It may be interesting to note at  
this time that the elements in factory cost accounting are now almost  
entirely the same as in the cost accounting of other industries. They have seen the same  
kind of material, kind of labor, kind of capital, and now recognize that  
this of course their costs in the factory and now recognize that  
accounting by means of which it costs to sell each item of merchandise.



Here we see a group starting out to conquer new fields in cost accounting, while some producers have not even touched that which has already been proven to be worth while.

There are two general methods of cost accounting. These are termed Process Cost and Job Cost. Process Cost is used in those industries where the materials pass along in an unbroken line from one department to another. The cost for each department (or process) is computed which is given as the cost of that process for all the materials which passed through that particular process. If cost per unit is wanted, and it usually is, the process cost divided by the number of units will of course give the unit cost for that department. The total of all departmental unit costs gives the total cost of the unit.

The process cost method is used in industries such as sugar refineries, soap manufacturies, and paint manufacturies.

The other method, Job Cost, takes no consideration of the various departments in the factory. The Job Cost method is aimed to determine the cost of a particular job or order. It is sometimes called the Production Order Method. In these plants no work is done on any unit unless a so-called production order has been issued from the office. This order usually bears a number. This method is used in machine shops which build machines to special order. It works this way. A record is kept of every item of cost for this particular special order, let us call it Production Order #6, or Job #6. If materials are purchased for this Job #6, it is recorded as part of the cost of this job. If any materials are taken from the stock room or storeroom for this one job, then Job #6 is likewise charged for this amount. Every man that works on this job keeps accurate record of his time and reports it to the office. This is by his time card. All expenses for this job are likewise recorded as part of Job #6. Finally, the cost of Job #6





includes a share of all the general operating expenses such as light, heat, general superintendent's salary, office expense, and all the other usual necessary overhead expenses.

Industries that use the Job Cost method are Machine shops that make machines on special orders, and shipbuilders. There are others, of course, but the above two are very good examples of Job Cost industries.

Builders will find the Job Cost method best suited to their needs.

including a number of all the material operating equipment such as light,

heat, electrical equipment, etc., and all the

other material necessary to operate the same.

Information was also obtained that the material was to be used for

the construction of a new building, and a number of other

of course, but the above are the very most important of the items

which

will be used in the construction of the new building.



## CHAPTER XXII

## UNIT COSTS

Unit

What is meant by a unit? Usually it means a single part of the whole. A unit of a dwelling house might be floors, doors, stairs, roof, or any of the fifty or more subdivisions of the completed house. A unit is a subdivision of the whole.

Very few Builders make much effort to determine the costs of the various units on a Job. On the other hand, some go to extremes in spending too much time to determine these cost figures.

Elements of Cost

The cost of a unit in the strictest sense includes the labor, materials and direct expenses that were necessary to complete the unit. In addition it would also include a proportionate share of the overhead expense.

If a Builder were to do that, most of his time would be spent on the books rather than on the job, which, of course cannot be.

Some accountants might criticize the author in this respect, but too many worthless accounting systems have been prepared for contractors; worthless for that very reason. The aim of this paper is to provide an easily handled accounting system for a Builder doing \$100,000.00 worth of business or less each year. The system must be easy to operate as a man cannot be an expert accountant and a Builder also.

It is absolutely essential that a Builder keep an accurate record of the labor cost of each unit. It is the labor which offers difficulty

What is meant by a will? The will is a legal instrument by which a person, during his lifetime, transfers property to another person. A will of a testator is a legal instrument by which a person, during his lifetime, transfers property to another person. A will is a legal instrument by which a person, during his lifetime, transfers property to another person.

Very few children are able to determine the value of the property which they own. The law, therefore, provides that a child's property shall be managed by a guardian of the property. The guardian of the property is a person who is appointed by the court to manage the property of a child.

# Guardian of the Property

The duty of a guardian of the property is to manage the property of a child in the best interests of the child. The guardian of the property is a person who is appointed by the court to manage the property of a child. The guardian of the property is a person who is appointed by the court to manage the property of a child.

If a child owns property, the guardian of the property must manage it in the best interests of the child. The guardian of the property is a person who is appointed by the court to manage the property of a child. The guardian of the property is a person who is appointed by the court to manage the property of a child.

Some states have laws which require the guardian of the property to file an annual report with the court. The report must show the guardian of the property how the property has been managed during the year. The guardian of the property is a person who is appointed by the court to manage the property of a child.

The guardian of the property is a person who is appointed by the court to manage the property of a child. The guardian of the property is a person who is appointed by the court to manage the property of a child. The guardian of the property is a person who is appointed by the court to manage the property of a child.

It is the duty of the guardian of the property to manage the property of a child in the best interests of the child. The guardian of the property is a person who is appointed by the court to manage the property of a child. The guardian of the property is a person who is appointed by the court to manage the property of a child.



in both estimating and Job management. Materials can be estimated quite accurately. So far as materials are concerned, no attempt will be made to charge its costs to the various units. The cost of each type of material such as rough lumber, finish lumber, hardware, etc. will be kept as units in themselves. Some Builders do charge all materials purchased to some unit, but the criticism is that it is not charged as it is actually used on the Job, but as it was intended to be used,

For example, here is how it is worked out. A bill comes in from the lumber company, detailed as to the items that go to make up the bill. The bookkeeper immediately charges the various units of the Job, using the estimate as a basis for making these charges. In other words, they are charging each unit on the basis of the estimate rather than what actually happened on the job. It is not a comparison of actual material costs with estimated material costs, but merely an apportionment of actual costs on the basis of the estimate.

As an alternative, it is proposed that the records determine

- 1st-actual labor costs,
- 2nd-cost of each type of materials used,
- 3rd-cost of any direct expenses.

The main object being to compare these figures with the estimated figures for the same things.

#### Estimate Sheet

The first thing that is wanted is an estimate of the Job showing the estimated cost of the three elements mentioned in the preceding paragraph. The second record to provide will be a General Ledger.

#### Account for Each Unit

The third step is to provide a second ledger with an account for each of the items shown on the estimate sheet. These accounts will

in some instances and the management. Materials are to be estimated  
quite accurately. So far as materials are concerned, the attempt will  
be made to divide the costs to the various units. The cost of each  
type of material such as rough labor, finish labor, hardware, etc.,  
will be kept as units in themselves. Some materials are common to all  
materials purchased to other units, but the criticism is that it is not  
charged as it is actually used on the job, but as it was intended to  
be used.

For example, there is now it is worked out. A bill comes in from  
the lumber company, divided as to the items that go to make up the  
bill. This bookkeeping is immediately changed to various units of the job.  
Using the estimate as a basis for making these changes. In other words,  
they are charging each unit on the basis of the estimate rather than  
what actually happened on the job. It is not a representation of actual  
material costs with estimated material costs, but merely an approximation  
most of which refers to the units of the estimate.

As an alternative, it is suggested that the estimate be broken  
down into three parts:  
1st - rough labor costs,  
2nd - cost of each type of material used,  
3rd - cost of any direct expenses.  
The main object being to separate these figures into the estimated  
figures for the job's cost.

Estimated Costs

The first thought in making an estimate of the job is to divide  
the estimated cost of the job into three elements mentioned in the preceding  
paragraph. The second element to consider will be a general laborer.

General Laborer

The first step is to divide a general laborer into an amount for  
each of the three elements mentioned above. These amounts will



supplement the account in the General Ledger which we have for that Job. The total amounts charged to these accounts must agree with the single amount in the Job account. A memorandum will be made in these accounts stating the estimated cost.

#### The Journal

The fourth to mention, but not fourth in order, is a Journal in which to record the transactions as they happen.

#### An illustration of Obtaining Unit Costs.

A Job undertaken by two senior students at the School of Building Construction at Hampton Institute, Virginia will be used to illustrate this plan of obtaining unit costs. These two young men, Robert G. Cotton and Cyrus B. Taylor agree to rebuild tennis courts at this school for a specified sum. Without going further into detail we will look at the estimate sheet: (see next page)





## GENERAL ESTIMATE

Tennis Courts

Estimator - G. R. Cotton

Checker - C. B. Taylor

Description of WorkTotal Estimated Cost

Clearing Site -----	\$ 2.00
Excavation (2 teams & scraper) -----	486.33
Trench Excavation -----	210.56
Tile Laying -----	46.00
Cinder Spreading -----	39.76
Stone Spreading -----	24.71
Clay Spreading -----	35.35
Cinder Rolling -----	6.40
Stone Rolling -----	6.40
Clay Rolling -----	9.60
Rental of Scrapers --e-----	10.50
Supervision -----	96.00
Hauling Cinders -----	224.25
Hauling Crushed Stone -----	208.32
Hauling Filler Stone -----	17.76

Materials Used

Tile -----	338.76
Cinders -----	676.20
Crushed Stone -----	946.12
Filler Stone -----	88.06
Foundation Clay -----	
Surface Clay -----	294.00
Sand -----	112.75
Salt -----	56.70
Level Boards for Drain Tile -----	51.32
Stakes for Level Boards -----	8.56
Grade Stakes -----	5.36
Boards for Wheeling -----	2.00
Grade Boards -----	4.80
Tar Paper -----	2.00

Total

\$ 4,010.57

# THE BALANCE SHEET

Balance Sheet - 12.31.1917  
 Assets - 12.31.1917

Assets

Total Assets

Liabilities and Capital

100.00	Capital
100.00	Reserve
100.00	Surplus
100.00	Unpaid Dividends
100.00	Unpaid Interest
100.00	Unpaid Taxes
100.00	Unpaid Wages
100.00	Unpaid Rent
100.00	Unpaid Insurance
100.00	Unpaid Freight
100.00	Unpaid Postage
100.00	Unpaid Telephone
100.00	Unpaid Water
100.00	Unpaid Gas
100.00	Unpaid Electric
100.00	Unpaid Fuel
100.00	Unpaid Repairs
100.00	Unpaid Depreciation
100.00	Unpaid Amortization
100.00	Unpaid Provisions
100.00	Unpaid Contingencies
100.00	Unpaid Other
100.00	Unpaid Total

Liabilities

100.00	Capital
100.00	Reserve
100.00	Surplus
100.00	Unpaid Dividends
100.00	Unpaid Interest
100.00	Unpaid Taxes
100.00	Unpaid Wages
100.00	Unpaid Rent
100.00	Unpaid Insurance
100.00	Unpaid Freight
100.00	Unpaid Postage
100.00	Unpaid Telephone
100.00	Unpaid Water
100.00	Unpaid Gas
100.00	Unpaid Electric
100.00	Unpaid Fuel
100.00	Unpaid Repairs
100.00	Unpaid Depreciation
100.00	Unpaid Amortization
100.00	Unpaid Provisions
100.00	Unpaid Contingencies
100.00	Unpaid Other
100.00	Unpaid Total

12.31.1917

Total



They arrived at these figures in a scientific manner, but as this is not a course in estimating, we immediately pass over to the next step; providing accounts for each of the units shown in the Estimate Sheet. These accounts may be of any form desired. What is essential is that the account provide a means of collecting all items of cost chargeable to that particular unit. In working this exercise, the student will use the standard form of account which is explained in Chapter V on the Account. The debit side will be used for collecting the items of cost and the credit side for any credits to the unit. It is not likely, however, that there will be any credits to these unit accounts.

For this problem it will serve the purpose to have more than one account on a page. Allow nine lines for each account, with the exception of Supervision which should be allotted eighteen lines.

#### Order of the Accounts

The first page will show two accounts:

- (1) Clearing Site
- (2) Excavation

Page 2 will have Trench Excavation and Tile Laying. Page 3 the next two as shown on the estimate sheet and so on down through the Estimate Sheet. It is usually advisable to leave a few pages for anything new that may arise. Allow two extra pages after the last labor unit "Hauling Filler Stone".

#### Accounts Titles

Each account shall have a name. It shall be EXACTLY as found in the Estimate Sheet in the column headed "Description of Work". THIS MUST BE SO AT ALL TIMES WHEN MAKING ENTRIES AFFECTING THESE UNITS. This does not mean that abbreviations can not be used anywhere. The point is

They arrived at about 11:00 in a residential area, but as this  
is not a house in this area, we immediately gave over to the next stage.  
Following accounts for each of the three areas in the following order.  
These accounts may be of any form desired. What is essential is that  
the account provide a means of collecting all items of that character  
to that particular area. In working this material, the account will see  
the account form of account which is included in the form of the  
Account. The form will be used for collecting the form of each  
and the credit side for any credit to the account. It is not likely,  
however, that there will be any credit to the account.  
For this reason it will serve the purpose to have each item  
account on a separate sheet. After this time for each account, after the completion  
of the account which would be listed in the form.

Form of the Account

The final page will show two accounts:

- (1) Working sheet
- (2) Summary

Page 2 will have French translation and this layout. Page 3 the next  
two as shown on the working sheet and as shown through the list  
sheet. It is usually desirable to have a separate sheet for each  
set of data. After two sets of data after the first set of data.  
The final sheet.

Account titles

The account will have a name. It shall be similar to the form in  
the following sheet in the form which is included in the form.  
The form will be used for collecting the form of each  
item not shown that characterizations can be used wherever. The form is



the one should not describe excavation as "Digging" or "Hauling Dirt". The object is to compare actual costs with estimated costs, and it has been found that where the description of the work shown on time cards varies from that shown on the Estimate Sheet, confusion is apt to come in the accounting records. Now we have the Estimate Sheet and accounts based upon it.

The next step is to provide a so called Book of Original Entry. This is the Journal. One is provided in this chapter. It has six debit columns and two credit columns and a "Name of Account" column between the set of debit and credit columns. Each current contract will be allotted a special column and will be headed with the Job number. The inside debit column is for recording miscellaneous debits. The inside credit column is for recording miscellaneous credits. The other credit column is headed "Cash" and is for recording payments of cash. It might be well at this time to review the chapter on Columnar Journals. There will also be a General Ledger. For this problem, use one sheet of standard form of ledger paper, using the top half for the Cash account, and the lower half for the Job #1 account.

#### Explanation of the Problem

1. The workmen are to be paid weekly.
2. Materials are to be paid for at the end of the Job.
3. Equipment is to be rented and paid for at the end of the Job.
4. Scrapers are to be hired with horses and drivers and included in the weekly pay roll.
5. Incidental expenses are to be paid for by Mr. Cotton personally, who will reimburse himself at the end of each week.

It can readily be seen that this is a very easy situation to handle but it will serve the purpose in showing how a builder keeps records so as to enable him to know the actual costs of each of the units in his whole Job.

The Job started on January 30, 1930 and the first payroll was for

The one should not be confused with "Blighting" or "Blighting".  
The object is to show the actual facts with reference to the  
found that there was some thing of the sort shown in the same  
which that shown in the National Chart, however it is not so much in the  
accounting records. Now we have the National Chart and accounts based

upon it.

The next step is to provide a so-called "Book of Original Entry".  
This is the Journal. This is provided in this form. It has six debit  
columns and two credit columns and a "Table of Accounts" column between  
the set of debit and credit columns. Each current account will be  
classified a special column and will be headed with the account name. The  
debit column is for recording miscellaneous debits. The credit  
column is for recording miscellaneous credits. The other credit  
column is headed "Cash" and is for recording payments of cash. It might  
be well at this time to review the chapter on General Journal. There  
will also be a General Journal. The first journal, and one must be  
attended to in ledger paper, making the debit for the cash account,  
and the other half for the other account.

#### Classification of the Journal

1. The Journal is to be kept daily.
2. Entries are to be made for the end of the day.
3. Entries are to be made for the end of the day.
4. Entries are to be made for the end of the day.
5. Entries are to be made for the end of the day.
6. Entries are to be made for the end of the day.
7. Entries are to be made for the end of the day.
8. Entries are to be made for the end of the day.

It can readily be seen that this is a very easy situation to handle  
but it will leave the person in a position where a further record is  
as to enable him to know the actual state of each of the things in the  
whole lot.

The job started on January 20, 1933 and the first period was for



the week ending February 6. A study of the time cards for the week, showed that a payroll of \$20.00 was distributed to the various units as follows:\*

1. Clearing Side	\$1.80
2. Supervision	16.00
3. Excavating 4" Tile	<u>3.00</u>
	\$20.80

Note that there is mentioned a unit (Excavation of 4" Tile) which does not appear in either the Estimate Sheet or the group of accounts.

An explanation of this should be given. On the Estimate Sheet the first Material Unit is "Tile --- \$338.75". It was discovered that some tile from the old tennis courts could be salvaged and a saving made as a result. Two extra pages in the ledger after the last labor unit account was reserved for just such contingencies.

Open an account after "Hauling Filler Stone" and head it "Excavation of 4" Tile". Make a memorandum at the top of the account calling attention to the reason for its existence. Make the same memorandum entry in the "Tile" account. Make the entry in the Journal for this Payroll transaction. As this is the first Job, head one column Job #1. Counting from left to right, use the fifth column for this Job. Do not put the single sum of \$20.80 in this column. The three amounts should be shown separately. In the "Name of Account" column write on the first line close to the heavy blue line, Job #1- Clearing Site. (This is the account which is being debited for \$1.80) On the next line write Job #1 - Supervision, and on the next Job #1 - Excavation of 4" Tile. On the next line, and indented about one inch, write "Cash" and put \$20.80 in the last column on the right. This credit column should be headed "Cash". The total of this column will be posted at the end of the month to the credit side of the Cash Account in the General Ledger. The total of the

\*The next chapter discusses time cards and methods of getting this distribution of the payroll to the proper units.

the following February 21. A study of the same was made by the writer.  
 showed that a payroll of \$11.00 was distributed to the various units

as follows:

1. Discharge	\$1.00
2. Expenses	10.00
3. Miscellaneous	1.00
<b>Total</b>	<b>\$2.00</b>

There was also a receipt for a bill (discharge of \$1.00) which  
 does not appear in either the National Bank or the group of accounts.  
 An explanation of this should be given. In the last entry under  
 the first National Bank is "Bill --- \$1.00". It was discovered that  
 some time from the first entry under the National Bank and a check made  
 to a receipt. The entire entry in the ledger after the last entry must  
 be made and corrected for that such corrections.

Given an account after "National Bank" and under it "Discharge  
 of \$1.00". This is a receipt for the bill of the account calling  
 attention to the reason for the discharge. Then the next entry under  
 entry in the "Bill" account. Then the entry in the ledger for this  
 entry is the first entry. As this is the first entry, look the column Job 1.  
 Looking from left to right, the first column for this Job 1. The first  
 but the single sum of \$1.00 is this entry. The first entry under  
 to them separately. In the "Sum of Accounts" column write in the first  
 line above the next entry line, Job 1 - Discharge Bill. This is the  
 account which is being debited for \$1.00. On the next line write Job 1 -  
 Discharge, and on the next Job 1 - Discharge of \$1.00. On the  
 next line, and indicated about one inch, write "Job 1" and Job 1.00 in  
 the last column on the right. This entry should be noted "Job 1".  
 The entry of this entry will be posted at the end of the month to the  
 credit side of the Cash account in the General Ledger. The entry of the

\*The next chapter discusses time cards and methods of posting same.  
 distributed at the payroll to the proper units.



Job #1 debit column will also be posted at the end of the month to the General Ledger. The individual items in Job #1 column will be posted NOW, but NOT TO THE GENERAL LEDGER ACCOUNT.

#### Posting to Subsidiary Accounts

These individual items are posted to the Unit Accounts. REMEMBER THESE ACCOUNTS ARE NOT PART OF THE GENERAL LEDGER SYSTEM. They merely supplement some General Ledger Account. In this case they are a supplement to Job #1 account. Oftentimes they would be kept in a separate book. Sometimes they are kept on cards. The sums of each of these Unit Accounts when all are totaled together will be the same as the single General Ledger Account called "Job #1". In other words, these thirty Unit Accounts contain the detailed information of the Job #1 account. As will be seen a little later on, this method serves as an excellent check on the accuracy of the posting.

Following is the entry in the Journal (Two debit columns omitted on account of lack of space).

	Job #1	General		General	Cash
	1.80		Job #1 Clearing Site		
	16.00		Job #1 Supervision		
	3.00		Job #1 Excavation 4" Tile		
			Payroll week ending February 6, 1930		20.00

The individual items will immediately be posted to the Unit Accounts. Three accounts will be affected as follows:

<u>Clearing Site</u>	<u>Supervision</u>	<u>Excavation 4" Tile</u>
\$1.80	\$16.00	\$ 3.00

If this was the only transaction of the month, the special columns





would be totaled and posted so that two General Ledger Accounts would be affected as follows:\*

Job #1	Cash
\$20.80	\$20.80

"To illustrate the effect on these accounts, it is not necessary to show dates, and source of the entry. In actual practice, standard form of accounts would be used and no details omitted.

#### A Controlling Account

It is worth while at this time to note the relationship between the General Ledger account "Job #1" and the subsidiary Unit Accounts. Note that the total of the Unit Accounts agree with the Job #1 account. Job #1 account because of this relationship known as a controlling account.

On the Columnar Journal paper provided, the above transactions should be recorded and the individual items posted to the Unit Accounts in the subsidiary ledger.

The payroll for the week ending February 13 was \$130.64, distributed as follows:

Clearing Side	\$3.70
Excavation	70.15
Trench Excavation	28.50
Supervision	19.29
Plumbing	3.60
Excavation 4" Tile	5.40
Total	\$130.64

Make entry for the above and post to Unit Accounts. Note that there is a new item in our payroll distribution this week. It was found necessary to move the old water pipes. This was not anticipated in making the estimate. Open another unit account and head it "Plumbing".

During the past two weeks, materials have been delivered on the

would be to include the cost of the General Ledger and the cost of the

be included as follows:

Job #1	Job #2
400.00	400.00

"To illustrate the effect on these accounts, it is not necessary to show debited, and credits of the entry. In actual practice, the debit to the account should be used and no details omitted."

A Journalizing Account

It is known while at this time to make the relationship between the General Ledger account "Job #1" and the subsidiary Unit Account. Note that the total of the Unit Account agrees with the Job #1 account. Job #1 account because of this relationship known as a controlling account.

On the balance sheet and on the profit and loss statement, the account should be treated and the individual items posted to the Unit Account in the subsidiary ledger. The partial for the cost ending February 15 was \$100.00, distributed

as follows:

Materials	40.00
Wages	30.00
Overhead	20.00
Freight	10.00
Insurance	5.00
Utilities	5.00
Depreciation	5.00
Total	135.00

Note entry for the above and post to Unit Account. Note that there is a balance in our general ledger for this work. It was found necessary to have the old ledger. This was not anticipated in making the estimate. One more unit account and that is "Finished". During the past two weeks, materials have been delivered on the



Job, but no entry will be made until a bill has been rendered for them.

Payroll Distribution for the next three weeks has been as follows:

	Feb. 20	Week Ending	
		Feb. 27	Mar. 6
Clearing Site	.72		
Excavation	74.15	79.07	10.80
Trench Excavation		71.30	37.41
Supervision	11.91	18.22	12.28
Plumbing	<u>2.22</u>	<u>.45</u>	<u>3.00</u>
Totals	\$89.00	\$169.04	\$63.49

Make entries for payment of the payroll on each of the three above dates

This Job continued for several weeks longer, but so as to save time for this practice work, the balance of the payroll will be summarized into one entry under the date of April 24.

Distribution of Payroll for seven weeks ending April 24

Clearing Site	\$ 3.00
Excavating	220.40
Trench Excavation	110.26
Tile Laying	41.50
Cinder Spreading	31.10
Stone Spreading	27.90
Clay Spreading	35.46
Cinder Rolling	4.80
Stone Rolling	6.00
Clay Rolling	8.10
Rental of Scrapers	10.50
Supervision	105.50
Hauling Cinders	409.54
Hauling Crushed Stone	196.00
Hauling Filler Stone	12.00
Excavation 4" Tile	6.00
Plumbing	<u>9.40</u>
Total	\$1,237.40

The costs of materials purchased were as follows: All have been paid for.

Tile	208.46
Cinders	65.00
Crushed Stone	1,001.94
Filler Stone	88.06
Surface Clay	286.00
Sand	112.75





Salt	56.70
Level Boards for Drain Tile	43.80
Stakes for Level Boards	8.56
Grade Stakes	5.36
Boards for Wheeling	2.30
Grade Boards	4.00
Tar Paper	3.00
Plumbing Supplies	4.77
Cement	6.00

Total \$1,896.70

Miscellaneous Expense amounted to \$8.60 and was paid for.

Rental of Miscellaneous Tools - \$35.00 was paid by cash.

Make one entry to record the payment of \$1,896.70 for the payroll for the seven weeks. Make one entry showing payment for materials. Open any new Unit Accounts necessary and post.

After all posting to the Unit Accounts have been made, total the columns in your Journal and post these totals to their separate accounts to your General Ledger.

The next thing to do is to total each of the individual unit accounts. This will, of course, give the cost of each of these units. The totals of all of these units should agree with the amount shown in the single Job #1 account in your General Ledger section. See if this is so. To do this, make a list of the units similar to that shown as the estimate sheet, page 147, and put the costs of each unit in a column to the right. There will be five more Units in the actual cost list than there is on the Estimate Sheet. These are:

Plumbing  
Excavation 4" Tile  
Plumbing Supplies  
Cement  
General Expense

Note in the totals that Hauling Cinders is greatly in excess of





the estimate but the cost of Cinders was less. The Contractors were able to get a large quantity of cinders at no charge, but had additional hauling expense.

Considerable was saved on Tile on account of salvaging the old tile that was excavated.

In working out this problem can be seen a method of getting the costs of not only the whole Job but of each part of that whole Job. One Job experience is now a permanent part of the accounting records. Whenever there is an opportunity to bid on similar work again, the builder can refer to these cost figures in preparing his estimate. Mr. Frank Walker, author of the Estimator's Handbook says, "As an aid to estimating, nothing is more valuable than your own cost figures".

The solution to the above problem is given at the end of this chapter.

the attitude but the cost of children was less. The Government was  
able to get a large quantity of children at no charge, but had additional  
of housing expenses.

Cambridge was saved on this on account of relieving the old

also that was suggested.

In working out this problem can be seen a method of getting the

costs of not only the whole job but of each part of that whole job.

And the experience is now a permanent part of the economic records.

Wherever there is an opportunity to bid on similar work again, the

seller can refer to these cost figures in preparing his estimate.

Frank Walker, author of the Estimator's Handbook says, "An aid to

estimating, nothing is more valuable than your own cost figures."

The solution to the above problem is given at the end of this

chapter.



February 7, 1930

	Job #1	General
1	1 80	
5	16 -	
6	3 -	

Clearing Site Job #1  
 Job #1 Supervision  
 Job #1 Excavation 4" tile  
 Wash  
 Payroll wk. end 2/6

Wash  
 20 80

1	3 70
1	70 15
1	28 50
5	19 29
6	3 60
6	5 40

- 14 -  
 Job #1 Clearing Site  
 " Excavation  
 " Trench excavation  
 " Supervision  
 " Plumbing  
 " Excavation 4" tile  
 Wash  
 Payroll 2/13/30

130 64

1	72
1	74 15
5	11 91
6	2 22

- 21 -  
 Job #1 Clearing Site  
 " Excavation  
 " Supervision  
 " Plumbing  
 Wash  
 Payroll 2/20/30

89 -

1	79 07
1	71 30
5	18 22
6	45

- 28 -  
 Job #1 Excavation  
 " Trench excavation  
 " Supervision  
 " Plumbing  
 Wash  
 Payroll 2/27

169 04

409 48

Forward to page 2

409 48



March 7, 1930

Job #2

Job #1

General

General

Cash

✓ 409 48  
 1 10 80  
 1 37 41  
 5 12 28  
 6 3 00

Brought forward  
 Job #1 Excavation  
 " Trench excavation  
 " Supervision  
 " Plumbing  
 Cash  
 Payroll 3/6

409 48

63 49

1 3  
 1 220 40  
 1 110 26  
 2 41 50  
 2 31 10  
 2 27 90  
 3 35 46  
 3 4 80  
 3 6 00  
 4 8 10  
 4 10 50  
 5 105 50  
 4 409 54  
 5 196  
 6 12  
 6 6  
 6 9 40

April 24, 1930  
 Clearing Site  
 Excavation  
 Trench excavation  
 Tile laying  
 Binder Spreading  
 Stone Spreading  
 Clay  
 Binder Rolling  
 Stone  
 Clay  
 Rental of Scrapers  
 Supervision  
 Hauling Binders  
 " Crushed Stone  
 " Filler  
 Excavation of 4" tile  
 Plumbing  
 Cash  
 Payroll for seven  
 weeks ending April 24

1237 46

1710 43

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1710 43



DR

CR

February 7, 1930

Job #1

General

General

Cash

1 180  
5 16 -  
6 3 -

Clearing Site Job #1  
Job #1 Supervision  
" Excavation  
Cash  
Payroll wk end 2/6

2080

- 14 -

1 370  
1 70 15  
1 28 50  
5 1929  
6 360  
6 540

Job #1 Clearing Site  
" Excavation  
" Trench Excavation  
" Supervision  
" Plumbing  
" Excavating 4" Ticks  
Cash  
Payroll 2/13/30

13064

- 21 -

1 72  
1 74 15  
5 1191  
6 222

Job #1 Clearing Site  
" Excavation  
" Supervision  
" Plumbing  
Cash  
Payroll 2/20/30

89 -

- 28 -

1 79 07  
1 71 30  
5 18 22  
6 45

Job #1 Excavation  
" Trench Excavation  
" Supervision  
" Plumbing  
Cash  
Payroll 2/27

12904

40948

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40948



Job #1 General  
 ✓ 409 48  
 1 1080  
 1 3741  
 5 1228  
 6 3 -

1 3 -  
 1 22040  
 1 11026  
 2 4150  
 8 3110  
 2 2790  
 3 3546  
 3 480  
 3 6 -  
 4 810  
 4 1050  
 5 10550  
 4 40954  
 5 196 -  
 6 12 -  
 6 6  
 6 940

1710 43

Brot Forward  
 Job #1 Excavation  
 " Trench Excavation  
 " Supervision  
 " Plumbing  
 Cash  
 Payroll 3/6

- April 24, 1930

Job #1 Clearing Site  
 Excavation  
 Trench Excavation  
 Tile Laying  
 Cinder Spreading  
 Stone "  
 Clay "  
 Cinder Rolling  
 Stone "  
 Clay "  
 Rental of Scrapers  
 Supervision  
 Hauling Cinders  
 " Crushed Stone  
 " Filler Stone  
 Excavation 4' Tiles  
 Plumbing  
 Cash  
 Payroll for seven  
 weeks ending 4/24/30

General Cash  
 40948

6349

123746

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171043



## Job #1 Subsidiary Ledger - Unit Costs

## Clearing Site

1930											
Feb.	7		1	1	80						
	14		1	3	70						
	21		1		72						
	24		2	3	00						
Excavation											
Feb.	14		1	70	15						
	21		1	74	15						
	28		1	79	07						
Mar.	6		2	10	80						
Apr.	24		2	220	40						
Trench Excavation											
Feb.	14		1	28	50						
	28		1	71	30						
Mar.	6		2	37	41						
Apr.	24		2	110	26						
Tile Laying											
Apr.	24		2	41	50						
Cinder Spreading											
Apr.	24		2	31	10						

Classified Data

Best Forward	1 80	1	1	1
Job # 1 Education	07 2	1	1	1
Job # 2 Education	27 1	1	1	1
Job # 3 Education	00 2	2	2	2
Job # 4 Education				
Job # 5 Education				
Job # 6 Education				
Job # 7 Education				
Job # 8 Education				
Job # 9 Education				
Job # 10 Education				
Job # 11 Education				
Job # 12 Education				
Job # 13 Education				
Job # 14 Education				
Job # 15 Education				
Job # 16 Education				
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Job # 96 Education				
Job # 97 Education				
Job # 98 Education				
Job # 99 Education				
Job # 100 Education				

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## Stone Spreading

1930									
Apr.	24		2		27	90			

## Clay Spreading

[illegible]

# Cinder Rolling

[illegible]

## Stone Rolling

1930								
Apr.	24		2		6 00			

## Clay Rolling

[illegible]

### Rental of Scraper

1930											
Apr.	24		2	10	50						

## Hauling Cinders

[illegible]

1944

1945

1946

1947

1948

1949

1950

1951

1952

1953

1954

1955

1956

1957

1958

1959

1960

1961

1962

1963

1964

1965

1966

1967

1968

1969

1970

1971

1972

1973

1974



Supervision					
1930					
Feb.	7		1	16	00
	14		1	19	29
	21		1	11	91
	28		1	18	22
Mar.	6		2	12	28
Apr.	24		2	105	50
Hauling Crushed Stone					
1930					
Apr.	24		2	196	00
Hauling Filler Stone					
1930					
Apr.	24		2	12	00
Excavation 4" Tile					
1930					
Feb.	7		1	3	00
	14		1	5	40
Apr.	24		2	6	00
Plumbing					
1930					
Feb.	14		1	3	60
	21		1	2	22
	28		1		45
Mar.	6		2	3	00
Apr.	24		2	9	40

1947-1948

1	100.00	1	100.00
2	100.00	2	100.00
3	100.00	3	100.00
4	100.00	4	100.00
5	100.00	5	100.00
6	100.00	6	100.00
7	100.00	7	100.00
8	100.00	8	100.00
9	100.00	9	100.00
10	100.00	10	100.00

1948-1949

1	100.00	1	100.00
2	100.00	2	100.00

1949-1950

1	100.00	1	100.00
2	100.00	2	100.00

1950-1951

1	100.00	1	100.00
2	100.00	2	100.00
3	100.00	3	100.00
4	100.00	4	100.00
5	100.00	5	100.00
6	100.00	6	100.00
7	100.00	7	100.00
8	100.00	8	100.00
9	100.00	9	100.00
10	100.00	10	100.00

1951-1952

1	100.00	1	100.00
2	100.00	2	100.00
3	100.00	3	100.00
4	100.00	4	100.00
5	100.00	5	100.00
6	100.00	6	100.00
7	100.00	7	100.00
8	100.00	8	100.00
9	100.00	9	100.00
10	100.00	10	100.00



Tile									
1930 Apr.	24		3	208	46				
						Cinders			
1930 Apr.	24		3	65	00				
						Crushed Stone			
1930 Apr.	24		3	1 001	94				
						Filler Stone			
1930 Apr.	24		3	88	06				
						Surface Clay			
1930 Apr.	24		3	286	00				
						Sand			
1930 Apr.	24		3	112	75				











Tar Paper				
1930				
Apr.	24		3	3 00
Plumbing Supplies				
1930				
Apr.	24		3	4 77
Cement				
1930				
Apr.	24		3	6 00
General Expense				
1930				
Apr.	24		3	8 60
	24		3	35 00





## General Ledger

R. C. Cotton

## Cash

[illegible]

TABLE 1. 1950

TABLE 2. 1950

TABLE 3. 1950

TABLE 1. 1950									
STATION	DATE	TIME	WIND	WAVE	SWELL	SEA	WIND	WAVE	SWELL
1	1/1	1000	10	2	1	1	10	2	1
2	1/1	1100	12	3	2	2	12	3	2
3	1/1	1200	15	4	3	3	15	4	3
4	1/1	1300	18	5	4	4	18	5	4
5	1/1	1400	20	6	5	5	20	6	5
6	1/1	1500	22	7	6	6	22	7	6
7	1/1	1600	25	8	7	7	25	8	7
8	1/1	1700	28	9	8	8	28	9	8
9	1/1	1800	30	10	9	9	30	10	9
10	1/1	1900	32	11	10	10	32	11	10
11	1/1	2000	35	12	11	11	35	12	11
12	1/1	2100	38	13	12	12	38	13	12
13	1/1	2200	40	14	13	13	40	14	13
14	1/1	2300	42	15	14	14	42	15	14
15	1/1	2400	45	16	15	15	45	16	15
16	1/1	2500	48	17	16	16	48	17	16
17	1/1	2600	50	18	17	17	50	18	17
18	1/1	2700	52	19	18	18	52	19	18
19	1/1	2800	55	20	19	19	55	20	19
20	1/1	2900	58	21	20	20	58	21	20
21	1/1	3000	60	22	21	21	60	22	21
22	1/1	3100	62	23	22	22	62	23	22
23	1/1	3200	65	24	23	23	65	24	23
24	1/1	3300	68	25	24	24	68	25	24
25	1/1	3400	70	26	25	25	70	26	25
26	1/1	3500	72	27	26	26	72	27	26
27	1/1	3600	75	28	27	27	75	28	27
28	1/1	3700	78	29	28	28	78	29	28
29	1/1	3800	80	30	29	29	80	30	29
30	1/1	3900	82	31	30	30	82	31	30
31	1/1	4000	85	32	31	31	85	32	31
32	1/1	4100	88	33	32	32	88	33	32
33	1/1	4200	90	34	33	33	90	34	33
34	1/1	4300	92	35	34	34	92	35	34
35	1/1	4400	95	36	35	35	95	36	35
36	1/1	4500	98	37	36	36	98	37	36
37	1/1	4600	100	38	37	37	100	38	37
38	1/1	4700	102	39	38	38	102	39	38
39	1/1	4800	105	40	39	39	105	40	39
40	1/1	4900	108	41	40	40	108	41	40
41	1/1	5000	110	42	41	41	110	42	41
42	1/1	5100	112	43	42	42	112	43	42
43	1/1	5200	115	44	43	43	115	44	43
44	1/1	5300	118	45	44	44	118	45	44
45	1/1	5400	120	46	45	45	120	46	45
46	1/1	5500	122	47	46	46	122	47	46
47	1/1	5600	125	48	47	47	125	48	47
48	1/1	5700	128	49	48	48	128	49	48
49	1/1	5800	130	50	49	49	130	50	49
50	1/1	5900	132	51	50	50	132	51	50
51	1/1	6000	135	52	51	51	135	52	51
52	1/1	6100	138	53	52	52	138	53	52
53	1/1	6200	140	54	53	53	140	54	53
54	1/1	6300	142	55	54	54	142	55	54
55	1/1	6400	145	56	55	55	145	56	55
56	1/1	6500	148	57	56	56	148	57	56
57	1/1	6600	150	58	57	57	150	58	57
58	1/1	6700	152	59	58	58	152	59	58
59	1/1	6800	155	60	59	59	155	60	59
60	1/1	6900	158	61	60	60	158	61	60
61	1/1	7000	160	62	61	61	160	62	61
62	1/1	7100	162	63	62	62	162	63	62
63	1/1	7200	165	64	63	63	165	64	63
64	1/1	7300	168	65	64	64	168	65	64
65	1/1	7400	170	66	65	65	170	66	65
66	1/1	7500	172	67	66	66	172	67	66
67	1/1	7600	175	68	67	67	175	68	67
68	1/1	7700	178	69	68	68	178	69	68
69	1/1	7800	180	70	69	69	180	70	69
70	1/1	7900	182	71	70	70	182	71	70
71	1/1	8000	185	72	71	71	185	72	71
72	1/1	8100	188	73	72	72	188	73	72
73	1/1	8200	190	74	73	73	190	74	73
74	1/1	8300	192	75	74	74	192	75	74
75	1/1	8400	195	76	75	75	195	76	75
76	1/1	8500	198	77	76	76	198	77	76
77	1/1	8600	200	78	77	77	200	78	77
78	1/1	8700	202	79	78	78	202	79	78
79	1/1	8800	205	80	79	79	205	80	79
80	1/1	8900	208	81	80	80	208	81	80
81	1/1	9000	210	82	81	81	210	82	81
82	1/1	9100	212	83	82	82	212	83	82
83	1/1	9200	215	84	83	83	215	84	83
84	1/1	9300	218	85	84	84	218	85	84
85	1/1	9400	220	86	85	85	220	86	85
86	1/1	9500	222	87	86	86	222	87	86
87	1/1	9600	225	88	87	87	225	88	87
88	1/1	9700	228	89	88	88	228	89	88
89	1/1	9800	230	90	89	89	230	90	89
90	1/1	9900	232	91	90	90	232	91	90
91	1/1	0000	235	92	91	91	235	92	91
92	1/1	0100	238	93	92	92	238	93	92
93	1/1	0200	240	94	93	93	240	94	93
94	1/1	0300	242	95	94	94	242	95	94
95	1/1	0400	245	96	95	95	245	96	95
96	1/1	0500	248	97	96	96	248	97	96
97	1/1	0600	250	98	97	97	250	98	97
98	1/1	0700	252	99	98	98	252	99	98
99	1/1	0800	255	100	99	99	255	100	99
100	1/1	0900	258	101	100	100	258	101	100
101	1/1	1000	260	102	101	101	260	102	101
102	1/1	1100	262	103	102	102	262	103	102
103	1/1	1200	265	104	103	103	265	104	103
104	1/1	1300	268	105	104	104	268	105	104
105	1/1	1400	270	106	105	105	270	106	105
106	1/1	1500	272	107	106	106	272	107	106
107	1/1	1600	275	108	107	107	275	108	107
108	1/1	1700	278	109	108	108	278	109	108
109	1/1	1800	280	110	109	109	280	110	109
110	1/1	1900	282	111	110	110	282	111	110
111	1/1	2000	285	112	111	111	285	112	111
112	1/1	2100	288	113	112	112	288	113	112
113	1/1	2200	290	114	113	113	290	114	113
114	1/1	2300	292	115	114	114	292	115	114
115	1/1	2400	295	116	115	115	295	116	115
116	1/1	2500	298	117	116	116	298	117	116
117	1/1	2600	300	118	117	117	300	118	117
118	1/1	2700	302	119	118	118	302	119	118
119	1/1	2800	305	120	119	119	305	120	119
120	1/1	2900	308	121	120	120	308	121	120
121	1/1	3000	310	122	121	121	310	122	121
122	1/1	3100	312	123	122	122	312	123	122
123	1/1	3200	315	124	123	123	315	124	123
124	1/1	3300	318	125	124	124	318	125	124
125	1/1	3400	320	126	125	125	320	126	125
126	1/1	3500	322	127	126	126	322	127	126
127	1/1	3600	325	128	127	127	325	128	127
128	1/1	3700	328	129	128	128	328	129	128
129	1/1	3800	330	130	129	129	330	130	129
130	1/1	3900	332	131	130	130	332	131	130
131	1/1	4000	335	132	131	131	335	132	131
132	1/1	4100	338	133	132	132	338	133	132
133	1/1	4200	340	134	133	133	340	134	133
134	1/1	4300	342	135	134	134	342	135	134
135	1/1	4400	345	136	135	135	345	136	135
136	1/1	4500	348	137	136	136	348	137	136
137	1/1	4600	350	138	137	137	350	138	137
138	1/1	4700	352	139	138	138	352	139	138
139	1/1	4800	355	140	139	139	355	140	139
140	1/1	4900	358	141	140	140	358	141	140
141	1/1	5000	360	142	141	141	360	142	141
142	1/1	5100	362	143	142	142	362	143	142
143	1/1	5200	365	144	143	143	365	144	143
144	1/1	5300	368	145	144	144	368	145	144
145	1/1	5400	370	146	145	145	370	146	145
146	1/1	5500	372	147	146	146	372	147	146
147	1/1	5600	375	148	147	147	375	148	147
148	1/1	5700	378	149	148	148	378	149	148
149	1/1	5800	380	150	149	149	380	150	149
150	1/1	5900	382	151	150	150	382	151	150
151	1/1	6000							



R. C. Cotton

Tennis Courts - Job #1

## Summary of Cost of Job

<u>Name of Unit</u>	<u>Amount</u>	
	<u>Estimated</u>	<u>Actual</u>
<u>Labor</u>		
Clearing Site	2.00	9.22
Excavation	486.33	454.57
Trench Excavation	210.56	247.47
Tile Laying	46.00	41.50
Cinder Spreading	39.76	31.10
Stone Spreading	24.71	29.70
Clay Spreading	35.35	35.46
Cinder Rolling	6.40	4.80
Stone Rolling	6.40	6.00
Clay Rolling	9.60	8.10
Rental of Scrapers	10.50	10.50
Hauling Cinders	224.25	409.54
Supervision	96.00	183.20
Hauling Crushed Stone	208.32	196.00
Hauling Filler Stone	17.76	12.00
Excavation 4" Tile	-c-	14.40
Plumbing	- -	18.67
<u>Materials</u>		
Tile	338.76	209.46
Cinders	676.20	65.00
Crushed Stone	946.12	1,001.94
Filler Stone	88.06	88.06
Surface Clay	294.00	286.00
Sand	112.75	112.75
Salt	56.70	56.70
Level Boards for Drain Tile	51.32	43.80
Stakes for Level Boards	8.56	8.56
Grade Stakes	5.36	5.36
Boards for Wheeling	2.00	2.30
Grade Boards	4.80	4.00
Tar Paper	2.00	3.00
Plumbing Supplies	- -	4.77
Cement	- -	6.00
General Expense		43.60
<u>Total</u>	<u>\$4,010.57</u>	<u>\$ 3,650.73</u>
<u>Gain</u>		<u>\$ 459.84</u>





## CHAPTER XXIII

## LABOR COSTS

This chapter will be devoted to explanations of methods of ascertaining costs of various labor units, such as the labor cost for excavating, laying floors, or the like.

The first step is getting a record of each man's labor, usually by time cards or time books; and the other step is getting the information from the time cards onto final Job report sheets, and to the accounts in the Job Ledger.

There are actually hundreds of various types of time cards for the reason that what is good for one person is not necessarily good for another. They all are alike in one respect however, and that is in their purpose. Each of them aim to first determine the amount of the man's pay and, secondly, for those who are interested in costs, to apportion his pay to the various Jobs, Units, or Operations on which he worked. The purpose in keeping time cards then may be said to be:

1. Determine the amount of the Payroll,
2. Determine the labor costs of each Unit.

Most all methods provide for a daily record of each man's work, either on a daily or weekly time card, or in a book. They also provide some means of transferring the data recorded on the time cards to a sheet which is known as a Labor Distribution Sheet. This sheet is a series of columns, each of which is headed with the name of some Unit. The cost figures for each Unit shown on the various time cards are transferred to these columns.

# CHAPTER XIII

## LABOR COSTS

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There are actually hundreds of various types of time cards for the reason that what is good for one person is not necessarily good for another. They all are alike in one respect however, and that is in their purpose. Each of them is to first determine the amount of the man's pay and, secondly, for those who are interested in costs, to determine his pay to the various jobs, units, or operations on which he worked. The first one is keeping time cards that may be said to be:

1. Determine the amount of the pay.
2. Determine the labor costs of each job.

Most all methods provide for a daily record of each man's work, either on a daily or weekly time card, or in a book. They also provide some means of transferring the data recorded on the time cards to a sheet which is known as a labor distribution sheet. This sheet is a series of columns, each of which is headed with the name of some unit. The cost figures for each unit shown on the various time cards are transferred to these columns.



One type of daily time card will be explained here. It is a bit unusual, but should be excellent for those who find they make errors in transferring figures from one sheet to another. It was devised by Mr. H. Whittemore Brown, superintendent of the Housing Company, Waverly, Mass., and is used both in factory work and building construction. One of these time cards is attached at the end of this chapter. It is made up of five coupons, each of which can be easily torn off. Each coupon provides a space for writing the man's name and the date, his rate, number of hours, and the amount. The top coupon is to show the man's total time, rate and amount for the one day. He will have a new card each day.

The sum of the six coupons, torn from the top each day will give the amount of his weekly earnings. The bottom coupons are for recording what the workman does each day. His name and the date is written at the top of each coupon. Sometimes the man's number is used instead of his name. Others use the man's initials. The reason is to save time. It will not always be necessary to use all of the bottom coupons. His time of starting work is marked on the proper line. The work he is doing is written in the space marked "Operation". Here again abbreviations or numbers may be used, but whatever is used, it should coincide with the estimate sheet. Remember the purpose of keeping this record is to enable the Builder to compare the actual costs with his estimated costs.

When the workman finished working on an operation, the time is noted by another mark on the proper line, and the total hours on this operation is put in the space headed "hours". The space headed "Rate" and "Amount" may be left blank until the end of the day, or at the time reserved for the bookkeeping.



The State of Illinois, County of Cook, ss.

I, the undersigned, Clerk of said County, do hereby certify that

the within and foregoing is a true and correct copy of the

original thereof, as the same appears from the records of said County.

In testimony whereof, I have hereunto set my hand and the seal of said County,

this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

Attest my hand and the seal of said County, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Clerk of Cook County, Illinois.

\_\_\_\_\_  
Notary Public for Cook County, Illinois.

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Notary Public for Cook County, Illinois.

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\_\_\_\_\_  
Notary Public for Cook County, Illinois.



When the workman starts on another operation it will be recorded in a like manner on the next coupon. Four coupons are provided, although they seldom will be all used, as it is not often that a man works on more than four operations in one day. If, however, an occasion arises where a man works on more than four operations in the same day, an extra card will be used. The beginning of one card should be shown as the same time as the end of the previous one.

If a workman is idle, a card should be made out for this time and "Idle" written on the space which is headed "Operation".

A separate time card is made out each day for each man. This may seem like a great deal of work and probably is, but it will be more than compensated by savings at the end of the week, and by satisfaction in having a record that must be right.

Sometimes these cards are kept by the workman himself, but in case this is not practical, the foreman on the Job will keep them.

At the end of each day, it is best to get all the time cards for that day together and complete the "rate" and "Amount" spaces on the bottom coupons. Add the total hours as shown on the bottom coupons, and put the total in the "Total Hours" space on the top coupon. Then complete the top coupon and show the amount earned for the day. Hereafter, the top coupons will be referred to as the "tops" and the four bottom coupons will be referred to as the "bottoms". After completing all the cards, the next step is to make a final check for accuracy.

THIS IS IMPORTANT. The bookkeeper is to separate these coupons now, but first should see that the total of the "bottoms" equal the amount shown on the "top". The top is for payroll purposes; the bottom is the cost distribution of the payroll. The bottoms MUST equal the top.

When the workman starts an operation it will be recorded in  
a list number on the next column. From now on and onwards, although  
they seldom will be the case, as it is not often that a man works on  
more than four operations in one day. It, however, in certain cases  
where a man works on more than four operations in the same day, an extra  
card will be used. The beginning of one card would be shown as the  
same time as the end of the previous one.  
If a workman is late, a card should be made out for his time and  
"idle" written on the space which is headed "operation".  
A separate card should be made out each day for each man. This way  
shows like a good deal of work and probably is, but it will be more  
than compensated by savings at the end of the week, and by satisfaction  
in having a record that is right.  
Sometimes these cards are kept by the workman himself, and in some  
this is not practical, the foreman or the job will keep them.  
At the end of each day, it is best to get with the list cards for  
that day so as to be able to check the "idle" and "late" cards in the  
foreman's office. And the list cards are given to the foreman's office,  
and put the total in the "Total Hours" a card on the top corner. Then  
complete the top corner and show the amount earned for the day. There-  
after, the top corners will be referred to as the "top" and the "bottom".  
Bottom corners will be referred to as the "bottom". After completing  
all the cards, the next step is to make a final check for accuracy.  
This is done by the foreman. The bookkeeper is to make these corners out,  
and the workman is to check the total of the "bottom" against the "top".  
shown on the "top". The top is for "gross" earnings; the bottom is  
the net (final) total of the net. The bottom is the top.



This is an application of the old saying: "Look before you leap".

Check before you tear. Making sure that these cards are accurate in this respect will save much confusion in the next few steps.

### Sorting

After the "tops" are checked against the "bottoms", tear the coupons apart. Next sort them into piles. Put all coupons that are marked "Excavation" into one pile; all those marked "Clearing Site" into pile number 2, pile number 3 is made up of bottoms marked "Trench Excavation", pile number 4 is "Supervision", and so on making a pile of coupons for each operation.

Each individual pile is then picked up, totaled and an elastic band put around it. The total is written on the back of this pack. The same is done for each pile including the tops.

### Transferring Payroll to Cost Distribution Sheet

On the first line of the Payroll Cost Distribution Sheet at the left should be written the date and the day of the week. The columns should be headed according to the operations worked on this week and the total as shown on the back of each pack of coupons put in its respective column. The column on the extreme right is used for the total column. If the work has been without error, the sum of the columns will equal the amount in the total column.

### End of Week

At the end of the week, all columns of the Payroll Cost Distribution Sheet are totaled. These totals are the basis of the Journal entries which were illustrated in the preceding chapter. The last column is the total of the payroll for the week and is a credit to the cash account.

This is an application of the old saying: "Look before you leap."

Check before you leap. Making sure that the records are accurate for

this report will save much confusion in the next few days.

### Summary

After the "check" was checked against the "bottom", then the "top"

was checked. Next were the "sides". But all concerned that the "sides"

"excavation" into one side; all those marked "excavation" into the

number 2, also number 3 is also up of bottom marked "excavation".

This number 4 is "excavation", and so on making a pile of copies for

each operation.

Each individual file is then checked up, totaled and an estimate

made and around it. The total is written on the back of this page.

The same is done for each file including the top.

### Transferring records to Good Distribution Sheet

On the first line of the "Good Distribution Sheet" at the

last should be written the date and the day of the week. The columns

should be headed according to the operations worked on this week and

the total as shown on the back of each page of copies put in the re-

spective column. The column on the extreme right is used for the total

column. If the work has been without error, the sum of the columns

will equal the amount in the total column.

### End of Week

At the end of the week, all columns of the "Good Distribution

Sheet" are totaled. These totals are the basis of the "Summary"

which is then illustrated in the "Summary" page. The last

column in the "Good Distribution Sheet" is a credit to the

cash account.



## Payroll

To get the amount due each man for his week's work, it will now be necessary to get each man's coupon together. Assuming that the same group of men were working all week, each man has one coupon in each of the six packs. To determine his weekly wage, it will be necessary to get all of his coupons together. This again is an easy process; merely a matter of sorting into piles again. Instead of each pile being coupons having to do with certain operations, there will be a pile of six coupons, all for one man. There will be as many piles as there are workmen. These individual piles will be totaled and their amounts listed on a sheet opposite the workman's name. This would be called a Payroll sheet.

To illustrate this type of time card, we will use an ordinary day's work on a frame house:

Four men are working -

<u>Name</u>	<u>Occupation</u>	<u>Rate</u>
Joseph Moore	Contractor	1.25
John Ewing	Carpenter	1.00
Harold Robbins	"	1.00
Smith Starling	Laborer	.40

All begin work at 8:00 A.M.

Moore, Joseph

From 8:00 to 12:00	building forms
" 12:00 " 1:30	building tool house
" 1:30 " 4:30	building forms
" 4:30 " 6:00	finished tool house

Ewing, John

From 8:00 to 12:00	and
" 12:00 " 1:30	building tool house
" 1:30 " 4:30	building forms

Robbins, Harold

From 8:00 to 12:00	and
" 12:30 " 4:30	building forms

# Exhibit

To get the amount due each man for his week's work, it will now be necessary to get each man's balance together. Assuming that the same group of men were working all week, each man has a share in each of the six weeks. To determine his weekly wage, it will be necessary to get all of his earnings together. This again is an easy process: merely a matter of writing it up again. Instead of 6 weeks, being now one having to do with certain operation, there will be 12 weeks. At six dollars each, all the men. There will be an easy balance between the men. These individual bills will be totaled and their amounts listed on a sheet on which the woman's name. This sheet is called a "weekly sheet".

To illustrate this type of time card, we will use an ordinary man's work on a farm house:

Your man was working -

Time	Occupation	Rate
Joseph Moore	Barren	1.25
John Evans	Barren	1.25
Harold Hopkins	"	1.25
Edith Stanning	Barren	.40

All begin work at 8:00 A.M.

Moore, Joseph  
from 8:00 to 12:00 working farm  
" 12:00 " 1:00 " working tool house  
" 1:00 " 4:00 " working farm  
" 4:00 " 8:00 " finished tool house

Evans, John  
from 8:00 to 12:00 and  
" 12:00 " 1:00 working tool house  
" 1:00 " 4:00 working farm

Hopkins, Harold  
from 8:00 to 12:00 and  
" 12:00 " 4:00 working farm



Starling, Smith

From 8:00 to 10:00 clearing site  
 " 10:00 " 12:00 excavating  
 " 12:30 " 4:30 helping on forms  
 " 4:30 " 6:00 helping on tool house

Make a card for each man, fill in all the spaces on the top coupon.

Complete the card for Moore, then do likewise for each of the other men.

The first day is Monday, April 7, 1930.

Note that two coupons are all that is necessary, even though he changed occupations more than twice. You can record his working from 8:00 to 12:00 and from 1:30 to 4:30 on the same coupon, giving him seven hours on building forms. One coupon is all that is necessary for showing his time on building the tool house. From 12:30 to 1:20 and from 4:30 to 6:00.

Some will prefer to draw a line between the two lines designating the period he has worked. See the time cards illustrating this day's work on pages 174 and 175.

Be sure to get the workman's name and the date of each coupon used.

The name of the Unit must, of course, be shown on each coupon. In today's work, the Units are

1. Clearing site
2. Tool House
3. Forms

The next step is to check the arithmetical accuracy of each card. That is, see if the top coupon is the total of the bottoms. This should be done at the end of each day.

The coupons are then separated and sorted into piles. In this illustration, we will have five piles. They are

1. Pile for "tops" (four coupons)
2. Clearing Site
3. Excavating
4. Tool House
5. Forms





The amount of the tops	is	<u>\$31.68</u>	(four coupons)
The pile for Clearing Site	is	.80	(one coupon)
The pile for Excavating	is	.80	(one coupon)
The pile for Tool House	is	8.73	(three coupons)
The pile for Forms	is	<u>21.35</u>	(four coupons)
Total		<u><u>\$31.68</u></u>	

Next, take a sheet of columnar paper and head it Pay Roll Distribution. This paper may be procured having as many as twenty columns.

Head the column at the left "Date". Head the next column "Clearing Site", the next column- "Excavating", the next "Tool House", and the next "Forms". Head the extreme right column "Total".

On the first line write the date and day. In the column headed "Clearing Site", put 80¢ and in each of the other unit columns put the amounts as shown on page 173.

You may do this once a week if you desire, but experience has proven that it is better to do this work each day. If an error occurs it is easier to locate it if you are doing it day by day than if you are doing it once a week.

The total of all the unit columns must, of course, equal the total column. Make this check day by day and you will not go wrong.





## DAILY TIME CARD

## DAILY TIME CARD

## PAY ROLL COUPON

## PAY ROLL COUPON

Dept. Name Date  
James Moore 4/7/30.

Dept. Name Date  
John Ewing 4/7/30.

Total Hours Rate Amount  
9 $\frac{1}{2}$  1.25 11.88

Total Hours Rate Amount  
8 1.00 8.00

Dept. Name Date  
James Moore 4/7/30

Dept. Name Date  
John Ewing 4/7/30.

7 8 9 10 11 12  
A.M.

7 8 9 10 11 12  
A.M.

12 1 2 3 4 5  
P.M.

12 1 2 3 4 5  
P.M.

Or. Operation Hrs. Ra. Amt.  
No. Forms 7 1.25 8.75

Or. Operation Hrs. Ra. Amt.  
No. Tool House 5 1.00 5.00

Dept. Name Date  
James Moore 4/7/30/

Dept. Name Date  
John Ewing 4/7/30.

7 8 9 10 11 12  
A.M.

7 8 9 10 11 12  
A.M.

12 1 2 3 4 5 6  
P.M.

12 1 2 3 4 5  
P.M.

Or. Operation Hrs. Ra. Amt.  
No. Tool House 4 1.25 3.75

Or. Operation Hrs. Ra. Amt.  
No. Forms 3 1.00 3.00

Dept. Name Date

Dept. Name Date

7 8 9 10 11 12  
A.M.

7 8 9 10 11 12  
A.M.

12 1 2 3 4 5  
P.M.

12 1 2 3 4 5  
P.M.

Or. Operation Hrs. Ra. Amt.  
No.

Or. Operation Hrs. Ra. Amt.  
No.

CHAS. J. B. B. B.

CHAS. J. B. B. B.

CHAS. J. B. B. B.

CHAS. J. B. B. B.

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CHAS.

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B.

CHAS.

J.

B.

B.

B.



## DAILY TIME CARD

## PAY ROLL COUPON

Dept. Name Date  
Harold Robbins 4/7/30.

Total Hours Rate Amount  
8 1.00 8.00

## DAILY TIME CARD

## PAY ROLL COUPON

Dept. Name Date  
Smith Starling 4/7/30.

Total Hours Rate Amount  
9½ .40 3.80

Dept. Name Date  
Harold Robbins 4/7/30.

7 8 9 10 11 12

A.M.

12 1 2 3 4 5

P.M.

Or. Operation Hrs. Ra. Amt.  
No. Forms 8 1.00 8.00

Dept. Name Date  
Smith Starling 4/7/30.

7 8 9 10 11 12

A.M.

12 1 2 3 4 5

P.M.

Or. Operation Hrs. Ra. Amt.  
No. Clearing Site 2 .40 .80

Dept. Name Date

7 8 9 10 11 12

A.M.

12 1 2 3 4 5

P.M.

Or. Operation Hrs. Ra. Amt.  
No. 2 .40 .80

Dept. Name Date  
Smith Starling 4/7/30.

7 8 9 10 11 12

A.M.

12 1 2 3 4 5

P.M.

Or. Operation Hrs. Ra. Amt.  
No. Excavating 2 .40 .80

Dept. Name Date

7 8 9 10 11 12

A.M.

12 1 2 3 4 5

P.M.

Or. Operation Hrs. Ra. Amt.  
No. Forms 4 .40 1.60

Dept. Name Date  
Smith Starling 4/7/30.

7 8 9 10 11 12

A.M.

12 1 2 3 4 5

P.M.

Or. Operation Hrs. Ra. Amt.  
No. Forms 4 .40 1.60

Smith Starling 4/7/30.  
From 4:30 to 6:00  
Tool House 1½ hours .80







# DAILY TIME CARD

## PAY ROLL COUPON

DEPT.	NAME	DATE
TOTAL HOURS	RATE	AMOUNT

DEPT.	NAME	DATE
-------	------	------

A.M.	6	15	30	45	7	15	30	45	8	15	30	45	9	15	30	45	10	15	30	45	11	15	30	45	12	15	30	45
P.M.	12	15	30	45	1	15	30	45	2	15	30	45	3	15	30	45	4	15	30	45	5	15	30	45	6	15	30	45

ORDER NO.	OPERATION	HOURS	RATE	AMOUNT
-----------	-----------	-------	------	--------

DEPT.	NAME	DATE
-------	------	------

A.M.	6	15	30	45	7	15	30	45	8	15	30	45	9	15	30	45	10	15	30	45	11	15	30	45	12	15	30	45
P.M.	12	15	30	45	1	15	30	45	2	15	30	45	3	15	30	45	4	15	30	45	5	15	30	45	6	15	30	45

ORDER NO.	OPERATION	HOURS	RATE	AMOUNT
-----------	-----------	-------	------	--------

DEPT.	NAME	DATE
-------	------	------

A.M.	6	15	30	45	7	15	30	45	8	15	30	45	9	15	30	45	10	15	30	45	11	15	30	45	12	15	30	45
P.M.	12	15	30	45	1	15	30	45	2	15	30	45	3	15	30	45	4	15	30	45	5	15	30	45	6	15	30	45

ORDER NO.	OPERATION	HOURS	RATE	AMOUNT
-----------	-----------	-------	------	--------

D.	NAME	DATE
----	------	------

A.M.	6	15	30	45	7	15	30	45	8	15	30	45	9	15	30	45	10	15	30	45	11	15	30	45	12	15	30	45
P.M.	12	15	30	45	1	15	30	45	2	15	30	45	3	15	30	45	4	15	30	45	5	15	30	45	6	15	30	45

ORDER NO.	OPERATION	HOURS	RATE	AMOUNT
-----------	-----------	-------	------	--------





## CHAPTER XXIV

## OVERHEAD EXPENSE

Defined

The term Overhead Expenses is one that should be defined without much difficulty, but one on which is found a great variance of opinions, particularly among Builders.

Overhead Expenses are those expenses which cannot be applied directly to a specific job.

Some illustrations of items that are, or are not overhead expenses should help to clarify this subject.

First, and perhaps the most common misappropriation of the term is that of including profit as part of the overhead. It is not a bit uncommon for Builders to reason along as follows: They submit a bid on the following figures:

Labor	\$4,000.00
Materials	4,000.00
Job Expenses	<u>500.00</u>
Total	\$ 8,500.00
Overhead (10% of above)	<u>850.00</u>
Amount of Bid	\$ 9,350.00

Now, what do they include in that item called "Overhead (10% of above)"? If their profit is not included here, then where is it? When a contractor adds 10% of his direct costs and figures that to include his profit, he should not incorrectly call it Overhead. It is Overhead plus something else; in this case- Profit.

UNITED STATES

INTERNAL SECURITY

Bellevue

The term "Internal Security" is one that should be defined with great  
care and precision, but has on many occasions been used in a  
very broad and indefinite manner.

Overhead expenses are those expenses which cannot be allocated

directly to a specific job.

Some illustrations of items that are, or are not overhead expenses

should help to clarify this subject.

First, and perhaps the most common misapprehension of the term

is that of including profit as part of the overhead. It is not a part

of overhead for the reason that it is not a cost. It is a profit and

on the following figures:

Direct	\$4,000.00
Overhead	2,000.00
Total	\$6,000.00
Profit (10% of \$6,000)	600.00
Total of Job	\$6,600.00

Now, what do they include in their cost called "Overhead" (10% of

cost)? It is not profit, it is not included here, then where is it?

When a contractor bills for the direct costs and figures that he

includes his profit, he is not necessarily calling it "Overhead". It is

Overhead when it is used in this sense.



Other contractors make a similar mistake in not including an amount for "Contingencies" in their estimate. They answer that this will be taken care of in the 10% that they add for Overhead. Here again it is including something as Overhead Expenses that is not an Overhead Expense. Any item that is directly chargeable to a specific job is not Overhead Expense.

It is important that Builders include in the item of Overhead all expenses, and on the other hand NOT to include any items which are not Overhead Expenses. This is so because it is important to check the estimated overhead with the actual. This they cannot do if they mix up with the real Overhead many items which are not overhead items at all.

It is not said that it is equally important to check the Overhead Expenses as it is to check the Labor Cost. One is more important than another and all know which that is.

Following are some items that are properly classified as Overhead Expenses:

- Bookkeepers Salary
- Office Rent
- Office Telephone
- Advertising
- Depreciation of Equipment
- Truck Expense (if the truck is being used for several jobs)

Here is a list of expenses that are NOT Overhead Expenses:

- Telephone (if installed on a Job)
- Truck Expense (if the truck is used exclusively for one job)
- Water man (on the job)
- Fees for Permits
- Employers Liability Insurance
- Expense in Procuring Bond

The above six items can all be applied directly to some specific job,

Overhead conductors make a slight mistake in not installing  
enough for "overhead" in their estimate. They must know that this  
will be taken care of in the 10% fund the old law provided. Here  
again it is including something as overhead expenses that is not an  
Overhead expense. Any item that is directly chargeable to a specific  
job is not Overhead expense.

It is important that Builders include in the item of Overhead  
all expenses, and on the other hand not to include any items which are  
not Overhead expenses. This is so because it is important to check  
the estimated overhead with the actual. This they cannot do if they  
mix up with the real Overhead many items which are not overhead items  
at all.

It is not said that it is equally important to check the Overhead  
expenses as it is to check the labor cost. One is more important than  
another and all know which that is.

Following are some items that are frequently classified as overhead

expenses:

- Bookkeeping Salary
- Office Rent
- Office Telephone
- Advertising
- Depreciation of Equipment
- Travel Expense (if the work is being done for  
several jobs)

There is a list of expenses that the N.E.C. Overhead Expenses:

- Telephone (if installed on a job)
- Travel Expense (if the work is done exclusively  
for one job)
- Water rent (on the job)
- Food for workers
- Lighting (if installed on a job)
- Depreciation on equipment

The above list items can all be applied directly to some specific job.



and therefore are not Overhead Expenses, because Overhead Expenses are those expenses that can NOT be charged directly to some specific job.

Of course, there are what may be called border line cases. Some situations will arise upon which accountants will differ as to the proper classification.

If a contract was taken and some damage to the house occurred, the cause being directly traceable to the workmen or foreman, the cost of repairing is part of the cost of that job. If after taking a job, a contractor discovers a large hidden well on the site that must be filled, the cost of doing so would be charged to the job and would be shown under the caption of contingencies.

#### OVERHEAD as Cost of Doing Business or Cost of the Job

A comparison of the methods of handling these Overhead Expenses as used by merchants and by manufacturers is now made:

The merchant prefers to look upon these expenses as "Cost of Doing Business", while the manufacturer prefers to see them as a part of the cost of his manufactured product.

To illustrate the two points of view are presented three simplified Profit and Loss Statements, the first for the merchant and second for the manufacturer; the first two on the assumption that these so called Overhead Expenses are "cost of doing business". The third is for the same contractor on the assumption that these Overhead Expenses are part of the cost of the Jobs.

and therefore the not Overhead Expenses, because Overhead Expenses  
are being increased by the fact that they are charged directly to each product.  
Job.

Of course, there are cases where the added burden line means. These  
alterations will arise upon which accountants will differ as to the  
proper classification.

It is a general rule that any cost which is incurred  
for a purpose which is directly attributable to the work of a particular job  
cost of producing is part of the cost of that job. If after taking a  
job, a contractor also does a large amount of work on the site that must  
be killed, the cost of doing so would be charged to the job and would  
be shown under the caption of contingencies.

Costs of Being Business of Job of Job

A comparison of the methods of handling these Overhead Expenses  
as used by architects and by manufacturers is now made:  
The architect prefers to look upon these expenses as "cost of  
being business", while the manufacturer prefers to see them as a part  
of the cost of his manufactured product.

To illustrate the two points of view are presented three slight-  
ly different and two identical, the first for the architect and  
second for the manufacturer; the first two on the assumption that  
these are called Overhead Expenses and "cost of being business". The  
third is for the same contractor on the assumption that these Overhead  
expenses are part of the cost of the job.



HOLLAND GROCERY COMPANY  
Framingham, Mass.

Profit and Loss Statement for  
year ending  
December 31, 1929.

Sales		\$26,800.00
Less Cost of Sales		
Inventory January 1, 1929	1,000.00	
Purchases	<u>22,000.00</u>	
	23,000.00	
Less Inventory Dec. 31, 1929	<u>1,200.00</u>	<u>21,800.00</u>
Gross Profit on Sales		5,000.00
Deduct		
Rent	1,200.00	
Wages	1,500.00	
Bad Debts	100.00	
Advertising	400.00	
Delivery Expense	400.00	
Miscellaneous Expenses	<u>600.00</u>	<u>4,200.00</u>
Net Profit		<u>\$ 800.00</u>

WILLIS TOWERS WORTHINGTON  
 WASHINGTON, D.C.

Profit and Loss Statement for  
 Year ending  
 December 31, 1954

Net Profit

\$1,000.00

Less: Cost of Sales  
 Inventory January 1, 1954 1,000.00  
 Purchases 1,000.00  
 2,000.00

Net Profit

Less: Inventory Dec. 31, 1954 1,000.00  
 Gross Profit on Sales 1,000.00

Expenses

Rent 1,000.00  
 Wages 1,000.00  
 Fuel 100.00  
 Advertising 500.00  
 Delivery Expenses 500.00  
 Miscellaneous Expenses 500.00

Net Profit

\$1,000.00

Net Profit



J. Mulchay & Son  
General Contractors  
Framingham, Mass.

Profit and Loss Statement for Year sending

December 31, 1929

Profit on Job #1	See	Exhibit	AA	450.00	
PROFIT on Job #2	See	Exhibit	BB	950.00	
Profit on Job #4	See	Exhibit	DD	1,600.00	
Profit on Job #5	See	Exhibit	EE	75.00	
Profit on Job #6	See	Exhibit	FF	180.00	
Profit on Job #7	See	Exhibit	GG	210.00	
Profit on Job #8	See	Exhibit	HH	55.00	
Profit on Job #9	See	Exhibit	II	85.00	
Profit on Job #10	See	Exhibit	JJ	300.00	\$3,905.00
				<hr/>	
Less Loss on Job #3	See	Exhibit	CC	350.00	350.00
					<hr/>
<u>Gross Profit</u>					\$3,555.00
Less Overhead Expenses					
Bookkeepers Salary				400.00	
Office Rent				60.00	
Advertising				100.00	
Depreciation of Equipment				300.00	
Truck Expense				590.00	1,450.00
				<hr/>	
<u>Net Profit</u>					<u>\$ 2,105.00</u>

J. H. H. & Son  
General Contractors  
Washington, D.C.

Profit and Loss Statement for Year ending

December 31, 1938

Profit on Job 10	See Exhibit 1	300.00
Profit on Job 11	See Exhibit 2	300.00
Profit on Job 12	See Exhibit 3	1,400.00
Profit on Job 13	See Exhibit 4	10.00
Profit on Job 14	See Exhibit 5	10.00
Profit on Job 15	See Exhibit 6	10.00
Profit on Job 16	See Exhibit 7	210.00
Profit on Job 17	See Exhibit 8	20.00
Profit on Job 18	See Exhibit 9	20.00
Profit on Job 19	See Exhibit 10	20.00
Profit on Job 20	See Exhibit 11	20.00
Profit on Job 21	See Exhibit 12	20.00
Profit on Job 22	See Exhibit 13	20.00
Less loss on Job 23 See Exhibit 14		20.00
Gross Profit		\$2,380.00
Less Overhead Expenses		
Transportation Salary		10.00
Office Rent		10.00
Advertising		10.00
Maintenance of Equipment		10.00
Travel Expense		10.00
Net Profit		\$2,350.00



J. Mulchay & Son  
General Contractors  
Framingham, Mass,

Profit and Loss Statement for Year ending  
December 31, 1929

Profit on Job #1	See Exhibit A	\$ 300.00
" " " 2	" " B	700.00
" " " 4	" " D	1,400.00
" " " 5	" " E	50.00
" " " 6	" " F	120.00
" " " 8	" " H	10.00
" " " 9	" " I	35.00
" " " 10	" " J	<u>200.00</u>

Total Profit \$2,815.00

Less

Loss on Job #3	See Exhibit C	700.00	
" " " #7	" " G	<u>10.00</u>	<u>710.00</u>

Net Profit \$2,105.00

J. Whitley & Son  
General Contractors  
Washington, D.C.

Profit and Loss Statement for Year ending  
December 31, 1933

Profit on Job	Job No.	Job Name	Profit
100.00	1	...	...
100.00	2	...	...
1,400.00	3	...	...
50.00	4	...	...
100.00	5	...	...
10.00	6	...	...
10.00	7	...	...
10.00	8	...	...
10.00	9	...	...
10.00	10	...	...
10.00	11	...	...
10.00	12	...	...
10.00	13	...	...
10.00	14	...	...
10.00	15	...	...
10.00	16	...	...
10.00	17	...	...
10.00	18	...	...
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10.00	21	...	...
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10.00	26	...	...
10.00	27	...	...
10.00	28	...	...
10.00	29	...	...
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10.00	31	...	...
10.00	32	...	...
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10.00	88	...	...
10.00	89	...	...
10.00	90	...	...
10.00	91	...	...
10.00	92	...	...
10.00	93	...	...
10.00	94	...	...
10.00	95	...	...
10.00	96	...	...
10.00	97	...	...
10.00	98	...	...
10.00	99	...	...
10.00	100	...	...

10.00.00

Total Profit

Loss

10.00.00

10.00.00  
10.00.00

Loss on Job 100  
10.00.00

10.00.00

Net Profit

10.00.00



J. Mulchay & Son  
General Contractors  
Framingham, Mass.

Profit and Loss Statement for Year Ending  
December 31, 1929

Exhibit AA

	Estimated	Actual	
Labor	2,050.00	2,000.00	
Materials	2,490.00	2,500.00	
Direct Expenses	250.00	300.00	2,800.00
Profit	460.00	450.00	
Contract Price	5,250.00	5,250.00	

For details see Weekly and Monthly Labor and Material Reports.

Exhibit A

	Estimated	Actual	
Labor	2,050.00	2,000.00	
Materials	2,490.00	2,500.00	
Direct Expenses	250.00	300.00	
Overhead	100.00	150.00	
Profit	360.00	300.00	24,050.00
Contract Price	5,250.00	5,250.00	

For Details see Weekly and Monthly Labor and Material Reports.

J. J. McNamee & Son  
General Contractors  
St. Louis, Mo.

Profit and Loss Statement for Year Ending  
December 31, 1933

Exhibit A

	Actual	Estimated	
Contract Prices	\$1,200.00	\$1,200.00	
Profit	200.00	200.00	
Direct Expenses	100.00	100.00	
Overhead	100.00	100.00	
Material	1,000.00	1,000.00	
Labor	2,000.00	2,000.00	

For details see Weekly and Monthly Labor and Material Reports.

Exhibit A

	Actual	Estimated	
Contract Prices	\$1,200.00	\$1,200.00	
Profit	200.00	200.00	
Direct Expenses	100.00	100.00	
Overhead	100.00	100.00	
Material	1,000.00	1,000.00	
Labor	2,000.00	2,000.00	

For details see Weekly and Monthly Labor and Material Reports.



No. I

The Holland Grocery Company had a sales volume of \$26,800.00. This merchandise that was sold, cost them \$21,800.00, leaving a profit of \$5,000.00. They determined this cost as follows: First, they figured the cost of all the merchandise they handled during the year. They did this by adding the cost of all materials purchased \$22,000.00 to the cost of what they had on hand at January 1, 1929 (\$1,000.00). This is a total of \$23,000.00 which might be called the cost of goods available for sale. At this point, look back to the Profit and Loss Statement and note these figures.

Now, if all of this merchandise was sold, we would say that the goods sold cost us \$23,000.00. But, they did not sell all of this merchandise. There is \$1,200.00 worth still on hand. That means that the cost of the goods that have been sold is the \$23,000.00 less this \$1,200.00, which is \$21,800.00.

Cost of Goods available for sale		\$23,000.00
<hr/>		
Not sold (determined by taking an inventory	1,200.00	
Balance Gone (presumably sold)	<u>21,800.00</u>	<u>\$23,000.00</u>

If the cost of the goods sold was \$21,800.00 and the total sales (at selling price) was \$26,800.00, then obviously they made a profit of \$5,000.00. Now, refer back to the statement again. See that this \$5,000.00 is called Gross Profit on Sales. The word to which your attention is called is "Gross". This Gross Profit is the amount

The Holland Grocery Company had a sales volume of \$22,000.00.  
It is understood that was sold, most when \$21,000.00, leaving a profit  
of \$1,000.00. They determined this cost as follows: First, they  
figured the cost of all the merchandise they handled during the year.  
They did this by adding the cost of all the items purchased \$22,000.00  
to the cost of what they had on hand at January 1, 1933 (\$1,000.00).  
This is a total of \$23,000.00 which might be called the cost of goods  
available for sale. At this point, look back to the profit and loss  
statement and note these figures.  
Now, if all of this merchandise was sold, we would say that the  
cost sold would be \$23,000.00. But, they did not sell all of this  
merchandise. There is \$1,000.00 worth still on hand. This means that  
the cost of the goods that have been sold is the \$22,000.00 less this  
\$1,000.00, which is \$21,000.00.

Cost of Goods	
Available for sale	\$23,000.00
<hr/>	
Not sold (deducted as being an inventory)	1,000.00
Balance (Goods (grossly sold))	<u>\$22,000.00</u>
	\$22,000.00

If the cost of the goods sold was \$21,000.00 and the sales price  
(at selling price) was \$22,000.00, then obviously there was a profit  
of \$1,000.00. Now, refer back to the statement of profit and loss  
and \$1,000.00 is called Gross Profit on Sales. The word to which  
your attention is called is "Gross". This Gross Profit is the amount



of profit before deducting the operating expenses, or as some prefer to call it, the Overhead.

The Overhead is made up of \$4,200.00 which is accounted for as follows:

Rent	\$1,200.00
Wages	1,500.00
Bad Debts	100.00
Advertising	400.00
Delivery Expense	400.00
Miscellaneous Expenses	600.00
	<hr/>
	\$4,200.00.

The Holland Grocery Company deducts this from their Gross Profit of \$5,000.00, and thereby arrives at their Net Profit of \$800.00

That is all there is to a Profit and Loss Statement for a Merchant! There is nothing perplexing about it. All are unanimous in agreeing that such a Statement is very easy to understand.

## No. II

This is a Statement of J. Mulchay & Son, who conducts a general contracting business in Framingham, Massachusetts. Note that all of his information makes up the heading of the Statement. It is very important also that the period of time that this Statement covers should be mentioned in the heading. In this case, it is for the year ending December 31, 1929.

Mr. Mulchay, the proprietor of this company believes that his Profit and Loss Statement should be so arranged that it will show two things: The profit (or loss) on each contract, and also the final Net Profit that the year's work has earned. He is in this respect different from the merchant. This is because the merchant would find it almost impossible to determine the cost and thereby the profit on each item that he sells. However, as Mr. Mulchay knows both the cost and the





contract price for each job, he is able to show the profit on each individual contract. He does this by listing each job that made a profit and setting the amount of the profit in a column to the right. Looking at Statement II, it is seen that he has listed nine jobs each with their respective profits and has totaled all of these (\$3,905.00). On one job instead of making a profit, he suffered a loss which, of course, can happen although good accounting records tend to minimize this possibility. On Job #3, he lost \$350. These he subtracts from his \$3,905.00 to ascertain his Gross Profit (\$3,555.00). His next step is to subtract his overhead expenses, which total \$1,450.00, leaving him a Net Profit of \$2,105.00.

If the reader of these statements wants more detailed information he is referred to Exhibit AA, BB, etc. Note that the Profit and Loss Statement says "Profit on Job #1, see Exhibit AA, \$450.00".

Exhibit AA merely shows the cost, both estimated and actual of the elements that went to make up the cost of Job #1 and the profit, all of which added together gives the contract price.

Still further details are available for each job in the weekly labor and expense reports and monthly material reports, which are to be fully explained in a later chapter.

### No. III

There is one respect in which Statements II and III differ. The first difference is that on Statement II the profit for Job #1 is \$450. and on Statement III \$300. On Exhibit AA is shown a profit of \$300. On Exhibit AA the cost is shown as \$4,800.00, whereas according to Exhibit A, the cost is \$4,950.00. They are both the same jobs and really the same cost; the only difference is that in Statement III and

...also for a ... he is able to show the results of each ...  
... the loss ... the ...  
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... it is ... that he has ... with ...  
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### III

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Exhibit A, the cost of the job includes that job's share of the Overhead expenses which, in this case was \$150.00. This shows the cost of the job \$150.00 more than in Statement II, Exhibit AA, and thereby the profit less by that amount.

Similar situations exist for each of the jobs.

Now, this does not mean for one moment that the costs or profits are really different. It merely means that in Statement II, the Overhead expenses are not part of the cost of the job. People using this type of statement do so because they believe that cost means the following:

Direct Labor on the Job,  
Materials Used on the Job,  
Expenses On the Job.

They do Not include such items as Bookkeepers Salary or Office Rent as part of the cost of a construction Job. To them, such items are COST OF DOING BUSINESS. In this respect, they are like the merchant. (see Statement I)

The Cost of Doing Business on Statement II is deducted from the Gross Profit. The result is then called Net Profit.

In Statement III the profits on each job is less than the corresponding items on Statement II. Note that Exhibit A shows less profit than Exhibit AA, because the cost on A is \$4,950.00, while it is only \$4,800.00 on AA.

But, notice also that on Statement II, Overhead Expenses of \$1,450.00 are deducted from the so called Gross Profit.

This whole question comes down to one thing. Are "Overhead Expenses" part of the cost of the jobs; or are they as the merchant sees it, "cost of Doing Business", and not to be considered as part of the cost of the Jobs.

Exhibit A, the cost of the job included that job's share of the overhead expenses which, in this case was \$150.00. This shows the cost of the job \$150.00 more than in Statement II, Exhibit A, and thereby the profit less by that amount.

Different allocations exist for each of the jobs.

Now, this does not mean that the amount that the costs of profits are equally different. It merely means that in Statement II, the overhead expenses are not part of the cost of the job. Profit is the type of statement as to business that believe that overhead costs are fixed:

Direct labor on the job,  
Materials used on the job,  
Expenses on the job.

They do not include what is known as overheads, delivery or utilities, rent as part of the cost of a particular job. In fact, such items are part of the business. In this respect, they are like the overhead.

The cost of doing business in Statement II is obtained from the Gross Profit. The result is then added to the cost.  
In Statement II, the profit on each job is less than the overheading figure in Statement II. Now, that Exhibit A shows that profit from Exhibit A, because the cost on A is \$150.00, while it is only \$100.00 on A.

But, notice also that in Statement II, overhead expenses of \$150.00 are obtained from the so called Gross Profit.  
This whole question comes down to one thing, the overhead is not part of the cost of a job; for the fact is that in the statement, cost is, "cost of doing business", and not to be considered as part of the cost of the job.



If one prefers to call them part of the cost of the job, they will use the form as shown in Statement III and Exhibit A. If the other point of view is taken, the other form of Statement will be used.

So far as determining profits are concerned, one serves as well as the other. Exhibit A has the advantage that it shows both actual and estimated overhead expenses applicable to each job. Exhibit AA does not do that, which is a decided disadvantage.

However, Statement II shows a summarized list of the Overhead Expenses and this certainly seems worth while particularly if one operates on a budget system. There is however no reason why such a statement could not be made as a supplement to the Financial Statement when Form III is used.

There is one more reason for preferring Statement III, and that is because of uniformity. The estimates and bids include an allowance for Overhead, and for that reason, if no other, it is better to keep statements according to Form III.

Builders will have opportunities to compare their costs with their competitors as do most well organized manufacturing industries. If all are operating the same type of accounting records, they can do this with more ease. This is a common practice among large manufacturers and there is no reason why Builders as small manufacturers cannot do likewise.

Following is summarized what has been said in this Chapter:

1. What is and what is not Overhead.
2. A study of the two viewpoints of Overhead as:
  - (a) cost of the job,
  - (b) cost of doing business.
3. A decided preference for the form which included Overhead as part of the Cost of the Job.

It was further to call them out of the fact, they will use

the fact as shown in Exhibit A. It is the other point of

view is that, the other point of Exhibit will be used.

So far as exhibiting exhibits are concerned, the answer is well as

the other. Exhibit A has the advantage that it shows both actual and

estimated, whereas Exhibit B shows only actual. Exhibit A does

not do that, which is a decided disadvantage.

However, Exhibit B shows a more complete list of the overhead costs

portion and this is a decided advantage. It is also operative

on a budget system. There is no reason why such a statement

could not be made and be incorporated in the financial statement when it is

it is made.

There is one more reason for exhibiting Exhibit B, and that is

because of materiality. The overhead and direct labor are not allocated for

overhead, and the fact remains, it is better to have what-

ever is according to the fact.

But does it have any relation to the fact that it is with

competition as to what will be the financial statement. It will

be operating the same type of manufacturing process, they are in this way

the same. This is a common practice among large manufacturers and there

is no reason why Exhibit A is not a satisfactory answer to the question.

Exhibit B is submitted what has been said in Exhibit A.

1. That is what is not overhead.

2. A statement of the overhead costs of overhead and

(a) cost of the fact.

(b) cost of being overhead.

3. A detailed statement for the fact that is

overhead as well as the fact of the fact.



### Accounting Methods of Charging Jobs for Overhead

Now that the reader knows what Overhead is and how and where to consider it, the next problem is to determine how to get to <sup>it</sup> the Jobs; that is from an accounting point of view. Actually, it is right out there in the job in the terms of dollars and cents expended for it. Where is it in the Ledger Accounts? It is in such accounts as Advertising, Bookkeeping Expense, Office Rent, Depreciation, and all the other expense accounts.

#### An Illustration

To enable the reader to see each step in getting these overhead expenses charged to the various jobs, some figures from an imaginary contractor's books will be used. He has the following expense accounts (totals only are given):

<u>Office Expense</u>		<u>Rent</u>	
\$125.00		\$240.00	
<u>Advertising</u>		<u>General Expense</u>	
\$258.00		\$385.00	

He also has the following Job Accounts:

<u>Job #1</u>		<u>Job #2</u>	
Labor	\$5,000.	Labor	\$3,000.
Material	4,000.	Material	3,000.
Dir. Expense	200.	Dir. Expense	300.
<u>Job #3</u>			
Labor	\$2,000.		
Materials	3,000.		
Dir. Expense	500.		

Now, each of these jobs should be charged to show its proportionate share of the Overhead Expenses. The first problem is to decide on

Accounting Method of Overhead Job for Overhead

Now that the reader knows what Overhead is and how and where to consider it, the next problem is to determine how to set the price. That is from a accounting point of view. Actually, it is right out there in the fact in the form of dollars and cents expected for it. There is in the ledger account. It is in such accounts as direct, indirect, overhead, etc., etc., etc., and all the other expense accounts.

An Illustration

To make the reader see each step in setting prices overhead expenses charged to the various jobs, some figures from an imaginary contractor's books will be used. He has the following expense accounts (totals only are given):

Office Expense	\$12.00	Travel Expense	\$45.00
Advertising	\$25.00	General Expense	\$10.00

He also has the following Job Accounts:

Job A	Job B
Labor \$2,000. Material \$1,000. Overhead \$50.	Labor \$3,000. Material \$2,000. Overhead \$100.

Job C
Labor \$4,000. Material \$3,000. Overhead \$200.

Now, each of these jobs should be charged up with the proportionate share of the Overhead Expenses. The first problem is to decide on



what basis each job should receive its burden of Overhead, and the second problem is one of debits and credits or how to get the amounts out of the expense accounts and into the Job Accounts.

Each of the three job accounts should include its share of the Overhead Expenses. One way would be to debit job #1 for its share of the Office Expense and credit the Office Expense Account for that amount. Then likewise for its share of Rent, Advertising and General Expense. Then, the same procedure for each of the other jobs. This method would prove rather cumbersome, especially so when in actual practice the job and Expense classification would be more numerous than in this illustration.

The author is reminded of a situation that existed in France during the World War that will explain a method of getting the Overhead Expense into each job account with much ease.

Picture France with the battle front in the North and hundreds of regiments over miles of trenches. In the Southern cities are hundreds of hospitals where men are being rebuilt and repaired so that someone may knock them down again. But, of course, they cannot get knocked down until they get back to the lines with their regiments and the sooner the regiments can collect them, the quicker are they available for knocking down purposes. So, the army heads get together and decide that instead of each regiment going from one hospital to another, picking up their repaired soldiers, that all of these soldiers be brought to one city and there the regimental officers would gather them up.

One does the same thing with their accounts. Bring all the various expense accounts to one place and then let the job accounts take their share at one move from this central place.

what basis each job should receive its portion of Government, and the  
 second problem is one of justice and equity as to how to put the money out  
 of the Government's pocket and into the job accounts.  
 None of the three job accounts should include the share of the  
 Government's account. One way would be to debit for the job share of  
 the Government's account and credit to the Office of Economic Warfare for that  
 amount. The Government's share of the account of the Office of Economic Warfare  
 would be the same as the share of the other jobs. This  
 method would make the Government's contribution, especially as it is paid  
 quarterly, the job and the Government's contribution would be very similar  
 then in both amounts.  
 The author is reminded of a situation that existed in France last  
 year when the Government was with a method of paying the Government  
 the same jobs each job account with each case.  
 Picture France with the entire money in the Government's account of  
 payments was also at the time. In the Government's office the payments  
 of payments were not being received and payment of that amount  
 was made from the Government. But, of course, they cannot get money  
 from the Government until they have paid to the Government with their payments and the  
 Government the payments and collect from the Government and pay over to the  
 Government the payments. So, the Government has to collect and collect  
 from the Government of the Government. The Government is supposed to be the  
 Government of the Government. That all of these payments are made  
 to one city and the Government's payments would be made from the  
 Government and the Government's payments. The Government's payments  
 are made from the Government to one (and the Government's payments  
 from the Government of the Government.



Office Expense	
\$125.00	

Rent	
\$240.00	

Advertising	
\$250.00	

General Expense	
\$385.00	

Overhead Expenses	
The Central Place	

Each of the above accounts are transferred to an account called "Overhead Expense" by debiting the Overhead Expense Account and crediting the individual expense accounts.

After this has been done, the accounts will look as follows:

Office Expense	
\$125.00	\$125.00

Rent	
\$240.00	\$240.00

Advertising	
\$250.00	\$250.00

General Expense	
\$385.00	\$385.00

General Overhead Expense	
Office Expense	\$ 125.00
Rent	240.00
Advertising	250.00
General Expense	385.00

Now that all of the Overhead Expenses are in one place, it is very easy to apportion it to each of the Job Accounts.

Office Expense	115.00	Post	250.00
Advertising	275.00	General Expense	100.00
The General Expense			

Each of the above accounts was transferred to an account called "Overhead Expense" by debiting the Overhead Expense account and crediting the individual accounts.

After this has been done, the accounts will look as follows:

Office Expense	115.00	Post	250.00
Advertising	275.00	General Expense	100.00
General Overhead Expense			
Office Expense	115.00		
Post	250.00		
Advertising	275.00		
General Expense	100.00		

Now that all of the Overhead Expenses are in one place, it is very easy to report them as one of the Job Accounts.



The Job Accounts

Job #1		Job #2	
Labor	\$5,000.	Labor \$	3,000.00
Material	4,000.	Material	3,000.00
Dir. Exp.	200.	Dir. Exp.	300.00

Job #3	
Labor	\$2,000.
Material	3,000.
Dir. Exp.	500.

This is accomplished by crediting the General Overhead Expense Account and Debiting the Individual Job Accounts.

The Overhead Expenses are 4 8/10% of the total Direct Costs of all jobs, therefore there is added to each job as its share of the Overhead, 4 8/10% of its Direct Costs.

Job	Direct Cost	Overhead	
# 1	\$9,200.00	\$441.60	(4 8/10% of \$9,200.00)
#2	6,300.00	302.40	(4 8/10% of \$6,300.00)
# 3	5,500.00	264.00	(4 8/10% of \$5,500.00)

How the figure 4 8/10% was arrived at will be explained on the following page.

To transfer the General Overhead Expense Account to the individual job accounts, credit the General Overhead Expense Account and debit each job account for its share of the Overhead as computed above.

After making these entries, the accounts appear as follows:

Office Expense		Rent	
\$125.00	\$125.00	\$240.00	\$240.00

Advertising		General Expense	
\$250.00	\$250.00	\$385.00	\$385.00

Job 1	
Material	\$1,000.00
Wages	2,000.00
Overhead	1,000.00
Total	\$4,000.00

Job 2	
Material	\$2,000.00
Wages	4,000.00
Overhead	2,000.00
Total	\$8,000.00

Job 3	
Material	\$3,000.00
Wages	6,000.00
Overhead	3,000.00
Total	\$12,000.00

This is summarized by crediting the General Overhead Account and debiting the Individual Job Accounts.

The Overhead Account at 4/1/20 is the total amount of all jobs, therefore there is added to each job an amount of the overhead, 4/1/20 at the various jobs.

Job	Material	Wages	Overhead
1	\$1,000.00	2,000.00	1,000.00
2	2,000.00	4,000.00	2,000.00
3	3,000.00	6,000.00	3,000.00

Now the figure 4/1/20 was arrived at will be explained as the

following:

To transfer the General Overhead to each account at 4/1/20 is 4/1/20, for example, credits the General Overhead account and debits each job account for its share of the Overhead as computed above.

After making these entries, the accounts appear as follows:

Job 1		Job 2	
Material	\$1,000.00	Material	\$2,000.00
Wages	2,000.00	Wages	4,000.00
Overhead	1,000.00	Overhead	2,000.00
Total	\$4,000.00	Total	\$8,000.00



General Overhead Expenses

Office Expense	\$125.00	\$441.60	To Job #1
Rent	240.00	302.40	" " # 2
Advertising	258.00	264.00	" " #3
General Expense	<u>385.00</u>		
	\$1,008.00	\$1,008.00	

<u>Job #1</u>		<u>Job #2</u>	
Labor	\$ 5,000.00	Labor	\$ 3,000.00
Material	4,000.00	Material	3,000.00
Dir.Labor	200.00	Dir.Labor	300.00
Gen.Overhead	<u>441.60</u>	Gen.Overhead	<u>302.40</u>
	\$ 9,654.60		\$ 6,602.40

<u>Job #3</u>	
Labor	\$2,000.00
Material	3,000.00
Dir.Labor	500.00
Gen.Overhead	<u>264.00</u>
	\$5,764.00

Computation of Rate for applying Overhead Expenses

Determining the rate of Overhead is important but not difficult. In the early part of this chapter, as well as in a previous chapter, it was explained that cost of a job was made up of four elements.

1. Direct Labor
2. Direct Materials
3. Direct Expenses
4. Indirect Expenses

Any item of cost that can be charged specifically to any one job is one of the first three, a direct cost; and any other item of cost is an indirect expense. It is not practical to try to charge each job for its EXACT share of these indirect expenses, mainly because the exact shares are not easily determined. The bookkeepers salary is a good

General Overhead Expenses			
Office Expenses	114.00	114.00	
Post	24.00	24.00	
Advertising	13.00	13.00	
General Expenses	25.00	25.00	
	176.00	176.00	

Total		Total	
Direct Labor	\$ 1,000.00	Direct Labor	\$ 1,000.00
Material	1,000.00	Material	1,000.00
Overhead	176.00	Overhead	176.00
	\$ 2,176.00		\$ 2,176.00

Total	
Direct Labor	\$ 1,000.00
Material	1,000.00
Overhead	176.00
	\$ 2,176.00

# Calculation of indirect expenses

Indirect expenses are those expenses which are not directly attributable to the production of goods, but which are incurred in the production process. They are included in the cost of the goods produced.

1. Direct Labor
2. Direct Materials
3. Direct Expenses
4. Indirect Expenses

Any item of cost that can be traced specifically to the production of one or more units of product, is a direct cost. Any item of cost which cannot be traced to the production of one or more units of product, is an indirect expense. It is not possible to say to what a cost is for the production of one unit of product, mainly because the exact amount is not easily determined. The overheads which are a good



example of that.

To figure the proper percentage to use in distributing the Overhead Expenses to the various Job Accounts, it is necessary to obtain the totals of two groups of figures:

1. The total of all Overhead Expenses during the year.
2. The total Direct Costs for the year of all Jobs (both finished and unfinished)

The next step is to compute the percentage that Overhead Expenses is of Direct Costs. This is done by dividing the amount of the Overhead Expenses by the total of the Direct Costs. In the illustration on a previous page we find that the total of all indirect expenses was \$1,008.00, and the total direct costs were \$21,000. \$1,008.00 divided by \$21,000. is .048 ( 4 8/10%), so we charge each job with 4 8/10% of its direct costs as its share of the indirect costs.

#### Charging certain Overhead Expenses directly to the Jobs.

Sometimes it is found advisable to charge each job directly for Truck Expense or for the use of other pieces of equipment. In this case the Truck Expense Account is not closed into (transferred) the General Overhead Expense Account.

Referring back to the chapter on Construction Equipment Accounts, page 112 , an explanation of the columns in the special form of Truck Operating Account is given. The column marked "J" is the only credit column in the account. It was explained that when a man rents his truck to someone, he debits the Cash Account for the amount of cash received and credits this "J" column in the Truck Operating Account for a like amount. This column represents the income earned by renting the truck. Some accountants would prefer to keep a separate account for





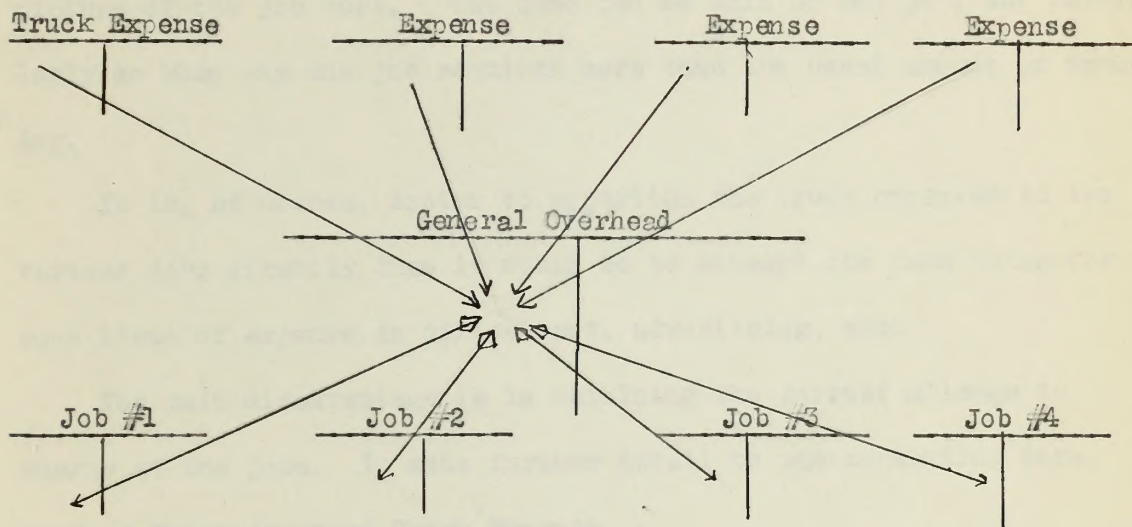
this sort of an item, but as this was discussed in the chapter on Construction Equipment Accounts, it will not be considered here. It was also mentioned that a contractor may rent his truck to himself. This is, he would charge each job for using the truck, and credit the Truck Operating Account by placing the amount in the Rental "J" column. In order to do this, it is necessary that the truck driver keep a record of his total mileage and apportion this total to the various jobs. A predetermined amount to charge for each mile is used as the basis for charging the job.

This is really charging each job for its share of one kind of General Overhead Expense, but on a different basis than mentioned previously in this chapter.

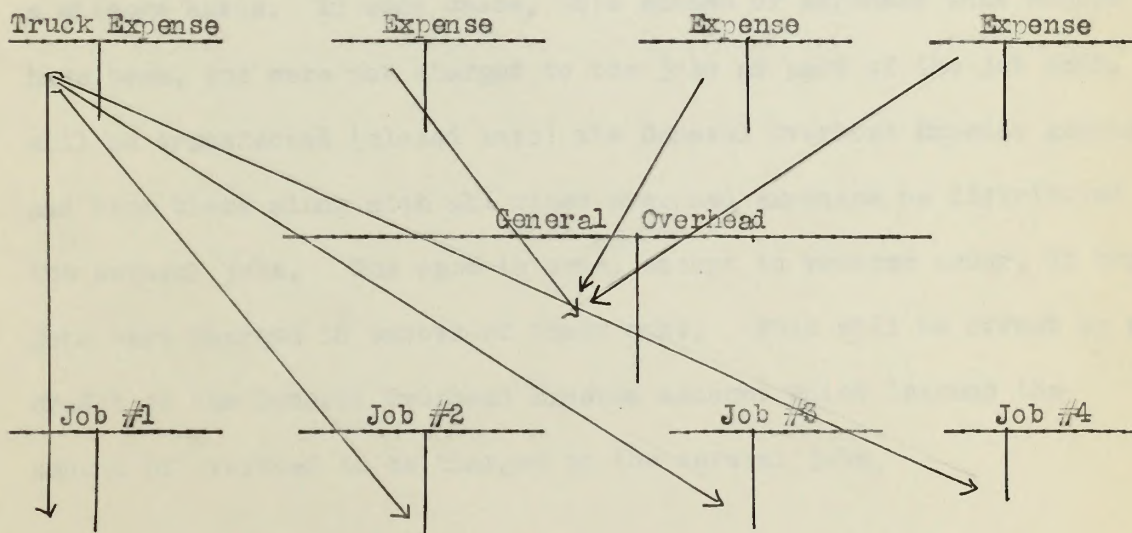




The following illustrates the method discussed earlier in this chapter:

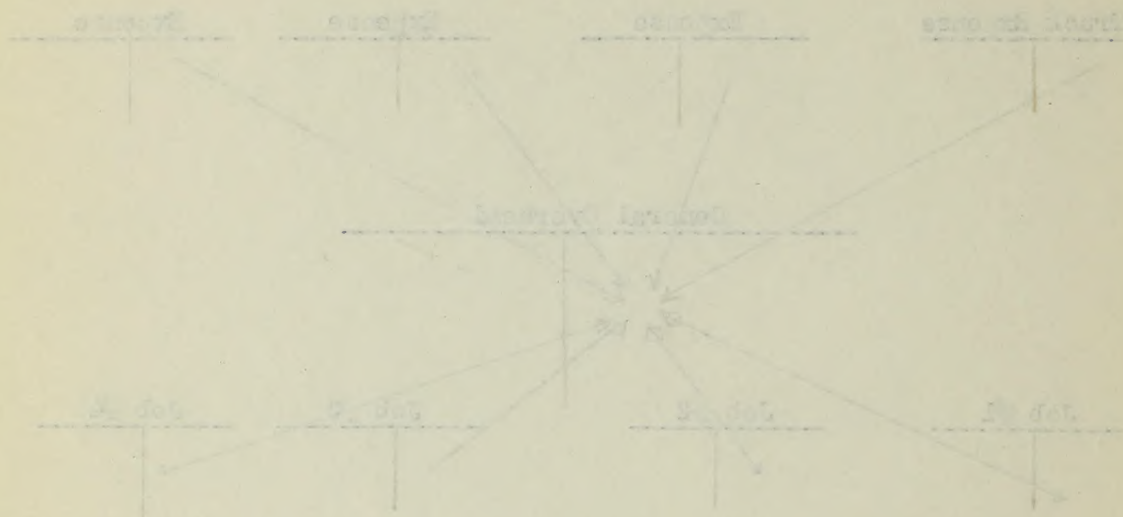


The following illustrates a more direct method of charging  
Truck Expense:



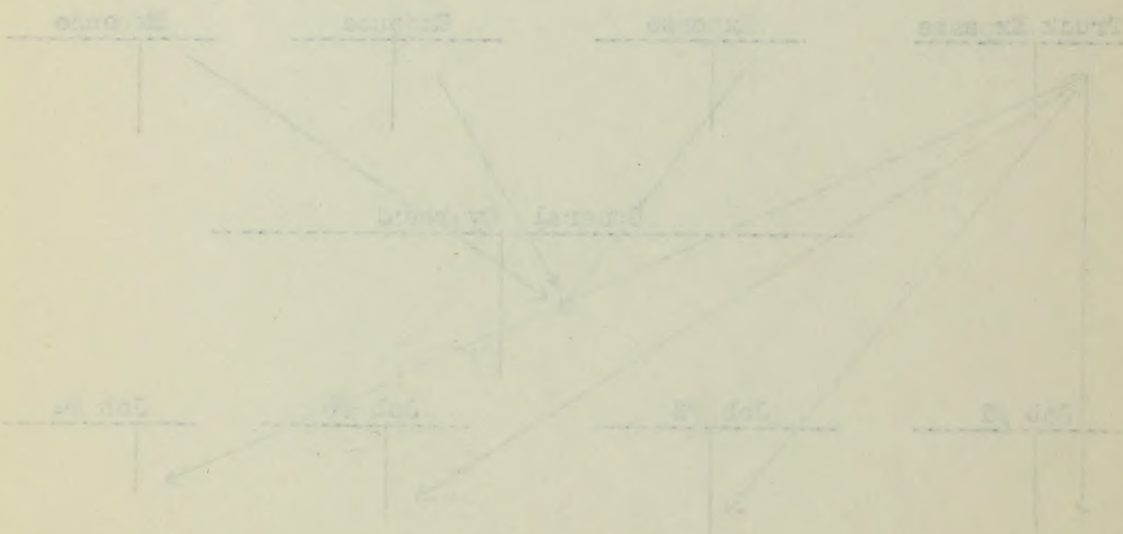
The following illustrations are used to discuss the subject in this

chapter:



The following illustrations are used to discuss the subject in this

chapter:





What is the advantage of this method, if any? When a job is situated at a long distance from the base, and therefore "Eats up", so to speak, a great deal of mileage, this method will give a more accurate picture of the job cost. The same can be said of any job, but particularly so when any one job requires more than the usual amount of trucking.

It is, of course, easier to apportion the truck expenses to the various jobs directly than it would be to attempt the same thing for such items of expense as office rent, advertising, etc.

The main disadvantage is in obtaining the correct mileage to charge to the jobs. It adds further detail to the accounting work.

#### Over or Under Absorbed Truck Expense

The amount of the various truck expenses will rarely be exactly the total of the amounts that have been charged to the jobs. Sometimes the expenses will be greater than what has been charged to the jobs on a mileage basis. In such cases, this excess of expenses that should have been, but were not charged to the jobs as part of the job cost, will be transferred (closed into) the General Overhead Expense Account and from there along with all other overhead expenses be distributed to the several jobs. The same is true, except in reverse order, if the jobs were charged in excess of their cost. This will be offset by a credit to the General Overhead Expense Account which lessens the amount of overhead to be charged to the several jobs.

There is a possibility of this being done, it may be done in the  
case of a large building, but the possibility is not  
great, a great deal of money, this would also give a great  
number of jobs, but the cost. The same can be said of any job, but  
likely no other job will be undertaken until the money is raised.

It is, of course, a question of the money to be  
raised, these directly from the sale of the land and from the  
sale of the land, as in the case of the land, etc.  
It is a matter of fact, as in the case of the land, etc.  
It is a matter of fact, as in the case of the land, etc.

Over the land, etc.

The amount of the money to be raised will vary in  
the total of the money to be raised, as in the case of the land, etc.  
The amount will be the same, but the cost will be the same, as in the case of the land, etc.  
a large amount. In each case, the amount of the money to be raised  
will be the same, but the cost will be the same, as in the case of the land, etc.  
will be the same, but the cost will be the same, as in the case of the land, etc.  
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the same, but the cost will be the same, as in the case of the land, etc.  
the same, but the cost will be the same, as in the case of the land, etc.  
the same, but the cost will be the same, as in the case of the land, etc.



## An Illustration:

Truck Operating Account			
Gas	\$200.00	\$200.00	To Job #1
Oil	50.00	150.00	" " #2
Repairs	50.00	50.00	" " #3
Garage Rent	100.00	250.00	" " #4
Taxes	50.00	50.00	Under-absorbed to Overhead Account
Depreciation	<u>250.00</u>		
	\$700.00	\$700.00	

Advertising		General Expense	
\$100.00	\$100.00 To Overhead	\$200.00	\$200.00 To Overhead

General Overhead Expense	
Advertising	\$100.00
General Expense	200.00
Under Absorbed Truck Exp.	<u>50.00</u>
	\$ 350.00

Notice that Jobs #1, 2, 3, and 4 were charged for a total of \$650.00 for the use of the truck, while the truck expense totaled \$700. There remained \$50.00 of Truck Expense not absorbed into the jobs. This is transferred to the General Overhead Expense Account from where it will be distributed to the jobs along with all other general overhead expenses.

This method is recommended whenever it is possible to get accurate records of the truck mileage for each job.

When to make the Entries

The question arises as to whether the job account shall be charged for its share of the Overhead Expenses immediately at the completion of the job, or at the end of the year at the time of closing the books. Those who advocate charging the job for its share of Overhead Expenses





as soon as the job is finished argue that the contractor wants to know as soon as possible just how much the job has cost and as the Overhead Expenses are part of the cost, it is necessary to include the jobs's share of Overhead in order to know the total cost. Of course, any entry that they make for this Overhead is purely an estimate as they do not know what the exact amount of Overhead is going to be for the entire year. Neither do they know what the total of the Direct Costs for all of the jobs to be worked on will be for the entire year, so do not know the ratio between Direct Costs and Overhead Expenses. These men recognize that charging each job is merely an estimate and so charge the job on an estimated basis.

They use last year's figures as a basis for estimating the Overhead for this year. If their Overhead Expenses last year totaled \$2,500.00 and the total Direct Costs on all of last year's jobs were \$50,000.00, they would estimate overhead for this year on the ratio 50,000 to 2,500. Reduced to percentage (2,500 divided by 50,000) one finds that the Overhead was 5% of the Direct Costs. Following are the same figures as shown on Page :

Job #1	Total Direct Costs	\$9,200.00
Job #2	" " "	\$6,300.00
Job #3	" " "	\$5,500.00

Assume that Job #1 was completed on April 10; Job #2 on July 31; and, Job #3 on December 20.

On April 10, those that care to charge Job #1 for its share of the Overhead would debit Job #1 account for an amount equal to 5% of its Direct Costs; 5% of \$9,200.00 This is \$460.00 On July 31, Job #2





would be charged \$275.00. The corresponding credits would be to the General Overhead Expense Account.

The Expense Accounts will be kept as usual and will be closed to General Overhead Expense Account on December 31, as was explained.

The following illustrates the method of applying Overhead Expenses at the completion of the job:

On April 10,

General Overhead Expenses	
	\$460.00 April 10 to Job #1
Job #1	
Labor	\$ 5,000.
Material	4,000.
Direct Expense	200.
Overhead (Estimated)	460.

On July 31, the accounts will be as follows:

General Overhead Expenses	
	\$460.00 April 10 To Job #1
	315.00 July 31 " " #2
Job #1	
Labor	\$5,000.
Material	4,000.
Dir. Exp.	200.
Overhead (Est.)	460.
Job #2	
Labor	\$3,000.
Material	3,000.
Dir. Exp.	300.
Overhead (Est.)	315.

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which is part of the 1950. The corresponding figures would be as

the same as the figures for 1950.

The figures for 1950 will be used as a basis for the figures for

1951. The figures for 1951 are based on the figures for 1950, as was explained.

The following figures are based on the figures for 1950 and 1951.

at the beginning of the year

at the end of the year

General Government

1950-51 1951-52

1950-51

1950-51	1951-52
1,000	1,000
1,000	1,000
1,000	1,000
1,000	1,000
1,000	1,000

At the end of the year, the figures will be as follows:

General Government

1950-51 1951-52

1950-51

1950-51	1951-52
1,000	1,000
1,000	1,000
1,000	1,000
1,000	1,000
1,000	1,000

1950-51

1950-51	1951-52
1,000	1,000
1,000	1,000
1,000	1,000
1,000	1,000
1,000	1,000



On December 20, the accounts will be as follows:

General Overhead Expenses

\$460.00	April 10	To Job #1
315.00	July 31	" " #2
275.00	Dec. 20	" " #3

Job #1

Labor	\$5,000.
Material	4,000.
Direct Expense	200.
Overhead (Estimated)	460.

Job #2

Labor	\$3,000.
Material	3,000.
Direct Expense	300.
Overhead (Estimated)	315.

Job #3

Labor	\$ 2,000.
Material	3,000.
Dir. Expense	500.
Overhead (Estimated)	275.

On December 31, the various expense accounts would be closed into the General Overhead Expense Account (see Pages 190-191 ) and the account would look as follows:

General Overhead Expenses

Dec. 31	Office Exp.	\$ 125.	\$460.	April 10	To Job #1
" 31	Rent	240.	315.	July 31	" " #2
" 31	Advertising	258.	275.	Dec. 20	" " #3
" 31	General Expense	395.			

The total debit of the above is \$1,008.00

The total credit of the above is \$1,050.00

On December 31, the accounts will be as follows:

General Ledger Accounts

2,500.00	April 10	To Cash
215.00	May 11	" " "
215.00	June 12	" " "

Job 1

2,500.00	Labor
2,000.00	Material
25.00	Direct Expenses
475.00	Overhead (Applied)

Job 2

2,500.00	Labor
2,000.00	Material
25.00	Direct Expenses
475.00	Overhead (Applied)

Job 3

2,500.00	Labor
2,000.00	Material
25.00	Direct Expenses
475.00	Overhead (Applied)

On December 31, the work in process account will be closed and

the balance transferred to the finished goods account (page 100-101) and the

amount will look as follows:

General Ledger Accounts

2,500.00	April 10	To Cash	2,500.00	April 10	To Cash
215.00	May 11	" " "	215.00	May 11	" " "
215.00	June 12	" " "	215.00	June 12	" " "

The total amount of the above is \$1,000.00

The total amount of the above is \$1,000.00



### Overabsorbed Overhead

From comparison of the foregoing figures, it is evident that the jobs have been charged with \$42.00 too much Overhead Expense. Their cost is overstated by that amount and, as a result, the profit is understated by a like amount. This is corrected in the Profit and Loss Account by a credit for \$42.00.

The debit is to General Overhead Expense account which closes out that account as each side now totals \$1,050.00

Now, why do some accountants want to go to all this trouble, or as someone aptly puts it, "placing the cart before the horse". Their reason as stated before is to charge each job for its share of the Overhead AS SOON AS POSSIBLE after the completion of the job. Of course, it is agreed that the contractor wants to know what the cost of the job is and, naturally, the sooner the better.

### The Better Method

How much easier it would be (and just as practical) if, at the completion of each job, they merely made a memorandum in the job account for this estimated overhead and, at the end of the year close the Expense Accounts to the General Overhead Expense Account, and then that account to the various job accounts.

In the next chapter the matter of Reports will be discussed. From these reports, the contractor is able to get all the information he wants and so has no occasion to refer to the job accounts for his cost data. The Job Account will be seen later to be a check on the reports as both must agree in totals.

Unemployment Insurance

From a comparison of the foregoing figures, it is evident that the

total amount of unemployment insurance benefits paid during the year 1934

was \$1,000,000, or 1.0 percent of the total amount of wages and salaries paid

during the year 1934. This is a very small amount, and it is evident that

the amount of unemployment insurance benefits paid during the year 1934

was very small compared with the total amount of wages and salaries paid

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The Federal Reserve

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during the year 1934. This is a very small amount, and it is evident that



### Additional Costs after Job is Completed

Another advantage of leaving the job accounts lie "as they are" at the completion of the job is that it is not at all unlikely that the Builder be called back to do some little thing that the owner of the house thinks should be done. If a contractor had to go back to do something that cost him \$10.00, this amount should be added to the cost of the job.

It is evident then, that there is an advantage to closing out all the accounts at the end of the year instead of at the completion of each job.

Under this method, the accounts will look the same as is shown on page 191, excepting that in the explanation column of Job #1 will be written "Estimated Overhead \$460.00" Cost including above \$9,660."

Each job account would at the end of the year show in the explanation column the estimated overhead and in the regular debit column the actual overhead.





## CHAPTER XXV

## REPORTS

The reports which shall be explained in this chapter are devised to show the Builder in concise form the story of the progress of his job under construction.

If possible, the contractor should have a report from his foreman each day. Such a report should merely be a memorandum of the day's accomplishments. It will serve as an incentive to the foreman to get as much done EACH day as he possibly can. The more frequent the checks on the work, the better it is apt to be. This is a human trait and really applies to ourselves as well as to the foreman.

In addition to this daily memorandum report, there should be others stating in more detail the exact progress of the job. Whether they should come at weekly intervals or longer is a matter for each individual contractor to decide for himself. Regarding the labor cost, it is advisable to show the contractor a report each week. Reports on Materials, Sub-contracts, and Overhead Expenses need not be made but once a month. This presupposes that separate reports are made for Labor, Materials, Sub-contracts, and Job Overhead. It is not always necessary to do this as one report may include all of them. In this case, it will probably be better to make each report include all the items of cost on the Job.

This Weekly Job Report may either supplement or substitute for the Job Ledger. All the information wanted about the Job can be had from the Job Ledger, but it will be spread over many pages. The re-





port should bring it altogether on one page. After the accounting system is working smoothly, it is possible to dispense with the Job Ledger entirely.

The report form which is used by The Housing Company of Waverly, Mass. is shown on the following page. This company usually has from four to ten contracts running simultaneously. They use weekly report sheets and have a report for each Job.

Each column of this report will be explained individually.

#### Unit - Description of Work

Each subdivision of the labor as shown by our estimate sheet is a "Unit". For example; excavating, forms, studding, picture mold. The labor cost of each of these will be considered a unit. Each kind of material is a unit; such as cement, rough lumber, finish lumber, hardware, etc. Each sub-contract is a unit and it is usual to have one unit called "Job Overhead".

The name of each unit is written in the first column. The first line will be for the first operation to be worked on, the second line for the next, and so on.

#### Estimated Cost

In this column opposite the name of the unit, we will write the estimated cost of this unit. The total estimated cost will be shown at the bottom.

post would then be distributed on one page. After the meeting  
agreed to work on this, it is possible to discuss with the  
editor and staff.

The report was then read by the Secretary of the  
Board. It was on the following lines. It is very much  
longer than the report which was submitted. The report was  
not read and was a report for each day.

Each subject of this report will be discussed individually.

#### Part I - Description of Work

The description of the work as given by our members shows  
a wide range of work, including, among other things,  
the work of the staff of the office, the work of the  
of material is a matter of fact, and it is not  
necessary to say that the work is a matter of fact  
and that it is not a matter of fact.

The work of the staff is a matter of fact, and it is not  
necessary to say that the work is a matter of fact,  
and that it is not a matter of fact.

#### Part II - Description of Work

In the report on the work of the staff, it is not  
necessary to say that the work is a matter of fact,  
and that it is not a matter of fact.









### Actual Cost

#### Last week.

In this column is written the total cost of each unit up to the beginning of the current week.

#### This week.

In this column is written the total cost incurred for each unit for the current week.

#### Total to Date.

The sum of the two previous columns is placed in this column. This shows the total cost of each unit.

### Percent Completed

In this column is placed the estimated percentage of completed work for each unit. That is, if excavating appears to be about one-half finished, 50 is written in this column. It is important that this part of the work be done very conscientiously. It should NOT be done by the foreman. The contractor himself should make this estimate.

### Value of Completed Work

The "Value" in this case is based on the estimated costs. If the estimated labor cost of form work was \$250.00 and the contractor on inspecting the Job found it to be 50% complete, he would put 50 in the "% Com." column and 50% of the estimated cost in the "Value Com.Wk." column, or \$125.00.

A comparison between "Value of Completed Work" column and Actual Cost - Total to Date Column will give the Gain or Loss on each unit. If the actual cost is less than the value, according to the estimate, a gain has been made and the difference between the two columns placed in the Compared to Estimate - Gain column. If the actual cost was greater than the estimated cost, there is a loss which is shown in the "Loss" column.

Actual Cost

In the column is written the total cost of each unit up to the beginning of the current week.

This column is written the total cost incurred for each unit for the current week.

Actual to Date  
The sum of the two previous columns is placed in this column. This shows the total cost of each unit.

Forward Computation

In this column is placed the estimated percentage of completed work for each unit. This is, if available, entered in the first column. If not available, it is estimated that this part of the work be done very conservatively. It should be done by the foreman. The percentage should be this estimate.

Value of Job In Progress

The "Value" in this case is based on the unit cost. If the estimated labor cost of this work was \$10.00 and the contractor in inspecting the job found it to be 50% complete, he would put 50 in the "Value" column and 50% of the estimated cost in the "Value" column, or \$5.00.

A comparison between "Value of Completed Work" column and Actual Cost - Total to Date column will give the Gain or Loss on each unit. If the actual cost is less than the value, according to the estimate, a gain has been made and the difference between the two columns placed in the "Gained to Estimate - Gain column". If the actual cost was greater than the estimated cost, there is a loss which is shown in the "Loss" column.



Following is an illustration of a few units:

Clearing Site is 100% complete, finished at a Gain.

Excavating is 50% complete, finished at a Loss.

Forms are 50% complete, finished at neither a Loss or a Gain

UNIT	EST. COST	% COMP.	VALUE Comp. Work	ACTUAL COST			COMPARED TO ESTIMATE	
				LAST WEEK	THIS WEEK	TOTAL TO DATE	GAIN	LOSS
Clearing Site	50	100	50		45		5	
Excavating	100	50	50		60			10
Forms	200	50	100		100			

The above seems to be self explanatory;

Next week excavating is finished and form work is 75% complete.

Unit	EST. COST	% COMP.	VALUE COMP WORK	ACTUAL COST			COMPARED TO ESTIMATE	
				LAST WEEK	THIS WEEK	TOTAL TO DATE	GAIN	LOSS
Clearing Site	50	100	50	45		45	5	
Excavating	100	100	100	60	50	110		10
Forms	200	75	150	100	40	140	10	
Total	350	275	300	205	90	295	5	

The totals for each column is added and the net loss or gain is computed. The value of such a report is so obvious that no comments will be made on it.

The total of the "total to date" column should be checked with the total of the units in the Job Ledger and likewise with the total of the Job Account in the General Ledger, provided that all columns in the Journal have been totaled and posted.

Following is an illustration of a few entries:  
 The first three are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".

UNIT	DATE	AMOUNT	DATE	AMOUNT	DATE	AMOUNT
100	100	100	100	100	100	100
100	100	100	100	100	100	100
100	100	100	100	100	100	100

The above entries are for "Gains".  
 The first two are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".

UNIT	DATE	AMOUNT	DATE	AMOUNT	DATE	AMOUNT
100	100	100	100	100	100	100
100	100	100	100	100	100	100
100	100	100	100	100	100	100

The first two are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".  
 The first two are for "Gains", the last two for "Losses".



## CHAPTER XXVI

## ASCERTAINING THE PROFIT

Income

In chapter XI, income was divided into two groups; income as a result of profit on contracts; and miscellaneous income. The following figures will be used to explain the procedure in ascertaining the profit:

	(A) <u>Cost</u>	<u>Contract Price &amp; Total Payments</u>
Job #1	\$4,000.00	\$4,100.00
" #2	7,000.00	7,600.00
" #3	6,000.00	5,800.00
" #4	6,000.00	6,400.00

(A) Includes Overhead Expenses.

## Other incomes:

Truck Rental	\$ 400.00
Cement Mixer Rental	300.00
Interest Earned	45.00
Miscellaneous Income	105.00

The accounts appear as follows:

Job # 1	
\$4,000.	\$4,100.

Job #2	
\$7,000.	\$7,600.

Job #3	
\$6,000.	\$5,800.

Job #4	
\$6,000.	\$6,400.

Truck Rental	
\$	\$ 400.

Cement Mixer Rental	
	\$ 300.

Interest Earned	
	\$ 45.00

Miscellaneous Income	
	\$ 105.00

# STATEMENT OF

## REVENUE AND EXPENDITURES

Page 1

The following statement shows the revenue and expenditures of the State of New York for the year ending June 30, 1900. The revenue is shown in the first column and the expenditures in the second column. The total revenue is \$1,000,000.00 and the total expenditures are \$1,000,000.00. The balance is \$0.00.

Revenue  
Total

(A) Total

\$1,000.00  
1,000.00  
1,000.00  
1,000.00  
1,000.00

\$1,000.00  
1,000.00  
1,000.00  
1,000.00  
1,000.00

1,000.00  
1,000.00  
1,000.00  
1,000.00  
1,000.00

(B) Expenditures

Other Income

\$1,000.00  
1,000.00  
1,000.00  
1,000.00  
1,000.00

Interest on Bonds  
Interest on Loans  
Interest on Notes  
Interest on Debts  
Interest on Securities

The statement is as follows:

Revenue  
Total

Revenue  
Total

Revenue  
Total

Revenue  
Total

Revenue  
Total

Revenue  
Total

Revenue  
Total

Revenue  
Total



### The Job Accounts

The debits represent the cost, and the credit represents the payment of the contract price. If the credits are greater than the debits, there has been a profit, and if the costs (debits) are greater than the income (credits), then of course, there has been a loss.

Jobs #1, 2 and 4 show profits.

Job #3 shows a loss of \$200.00

### Miscellaneous Incomes

These accounts show as credits the various incomes earned.

### Ascertaining the Profit

To ascertain the profit:

1. Add all profits made on the jobs,
2. Subtract any job loss,
3. Add miscellaneous incomes.

Profit on Job #1	\$100.00	
" " " #2	600.00	
" " " #4	<u>400.00</u>	\$1,100.00
Subtract		
Loss on Job #3	<u>200.00</u>	<u>200.00</u>
Profits on all Jobs.		900.00
Add other incomes		
Truck Rental	400.00	
Cement Mixer Rental	300.00	
Interest Earned	45.00	
Miscellaneous Incomes	<u>105.00</u>	<u>850.00</u>
<u>Net Profit</u>		<u>\$ 1,750.00</u>

Notice that there were no expenses to consider in the above. This is because all expenses were added to the costs of the various jobs and so have been considered in arriving at the profits or loss for each of the jobs.

The Job Account

The details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.

Total \$100.00 and \$100.00.

Total \$100.00 and \$100.00.

Job Account

The details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.

Job Account

The details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.

1. All the details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.
2. All the details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.
3. All the details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.

\$100.00	\$100.00	\$100.00
\$100.00	\$100.00	\$100.00
\$100.00	\$100.00	\$100.00

Job Account

\$100.00	\$100.00	\$100.00
\$100.00	\$100.00	\$100.00
\$100.00	\$100.00	\$100.00

Job Account

\$100.00	\$100.00	\$100.00
\$100.00	\$100.00	\$100.00
\$100.00	\$100.00	\$100.00

Job Account

The details regarding the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.

in account with the cost of the job, and the credit for the same, are as follows: It is noted that the cost of the job is \$100.00, and the credit for the same is \$100.00. The balance is \$0.00.



### Closing The Accounts

The next step is to put the same computations in the form of accounting records. The procedure will be exactly the same, excepting that the adding and subtracting will be done in an account called "Expense and Income" account. Another name for this account is "Profit and Loss" account. This name is at present more in use than "Expense and Income". The latter is used, however, because in every step up to the present, this paper has consistently put Losses and Expenses on the left; and Revenue, Income, and Profits on the right. The term Profit and Loss is a violation of this consistency. The four Job Accounts and the four Income Accounts are shown below, and immediately following them is the Expense and Income Account. The computations will be made in this account by transferring the balances of each Job Account and each Income Account to the Expense and Income Account. This is accomplished by a debit entry (excepting for Job #3 account) to the Job and Income Accounts for the amount of its balance, the corresponding credit being to the Expense and Income Account. Take Job #1 as an illustration: It stands as follows with a credit balance of \$100.00

Job #1	
\$4,000.00	\$4,100.00

This means that a \$100.00 profit was made on this job.





The transfer of this \$100 to the Expense Account is accomplished by a debit of \$100 to the job account.

Job #1	
\$4,000.00	\$4,100.00
x 100.00	

and a credit of \$100 to Expense and Income Account

Expense and Income	
	x \$100.00 Job #1

After the same has been done for each account, they will look as follows:

Job #1		Job #2		Job #3	
\$4,000.	\$4,100.	\$7,000.	\$7,600.	\$6,000.	\$5,800.
100.		600.			200.

Job #1		Truck Rental		Cement Mixer Rental	
\$6,000.	6,400.	\$ 400.	\$ 400.	\$ 300.	\$ 300.
400.					

Interest Earned		Miscellaneous Income	
\$ 45.	\$ 45.	\$ 105.	\$105.

Expense and Income Account	
Job #3 \$200.	\$100. Job #1
	600. " #2
	400. " #4
	400. Truck Rental
	300. Cement Mixer Rental
	45. Interest Earned
	105. Miscellaneous Income





Each of the Job and Income Accounts are now totaled and ruled as illustrated by the following:

Job #1	
Cost \$4,000.00	\$4,100. Contract Price Payment
Profit 100.00	
<u>\$ 4,100.00</u>	<u>\$ 4,100.00</u>

#### Profit Transferred to Capital Account

The total credits representing profits of the Expense and Income Account is \$1,950 and the one debit of \$200 representing a loss is the summarized story of profits, losses, and income. The net result ( (\$1,950 less \$200) is the net profit (\$1,750). This is the same figure arrived at on page 209.

The next step is to transfer this to the Capital account. It is desired to transfer a credit balance of \$1,750.00 from Expense and Income Account to the Capital Account. This is accomplished by debiting Expense and Income Account and crediting Capital Account. After this entry, the two accounts appear as follows:

Expense and Income		Capital
\$200.	\$100.00	\$5,000. Investment
	600.00	1,750. Net Profit
To Capital	400.00	for Year
Account	400.00	
1,750.	300.00	
	45.00	
	<u>105.00</u>	
<u>\$ 1,950.</u>	<u>\$1,950.00</u>	





The Capital Account now shows a total Capital at this time of the original investment (assume \$5,000) plus the net profit; a total of \$6,750.

Amount of Capital as one Figure

It is usually desirable to show this amount as one figure. This is accomplished by both a debit and credit entry of \$6,750 to the Capital Account. After the debit entry is made, the account is double ruled and then the credit entry is made (see page 57 ).

- (a) debit Capital Account \$6,750.
- (b) total and rule the account.
- (c) credit Capital Account \$6,750.

This enables the bookkeeper to "bring down" the total Capital in one figure: Entry (a) would carry the date of December 31, 1929, and entry (c) would be shown as January 1, 1930.

Capital			
(a) Dec.31 1929 Balance	\$6,750.00	Jan.1,1929 Balance	\$5,000.00
(b) Rule and add		Net Profit	<u>1,750.00</u>
	<u>\$6,750.00</u>		<u>\$ 6,750.00</u>
(c)		Jan.1,1930 Balance	6,750.00

The Capital account was a credit of \$100,000 at the close of the fiscal year 1930. The balance of the Capital account at the close of the fiscal year 1931 was \$100,000. The balance of the Capital account at the close of the fiscal year 1932 was \$100,000.

Statement of Assets and Liabilities

It is hereby certified that the assets and liabilities of the company as of the close of the fiscal year 1932 are as follows: Assets, \$100,000; Liabilities, \$100,000. The assets of the company consist of cash, accounts receivable, and other assets. The liabilities of the company consist of accounts payable, other liabilities, and other liabilities.

- (a) Cash \$100,000
- (b) Accounts receivable \$100,000
- (c) Other assets \$100,000

This statement is prepared in accordance with the provisions of the Act of October 3, 1917, and the regulations thereunder. The statement is true and correct as of the date of preparation, to-wit: October 3, 1932.

Assets		Liabilities	
(a) Cash	\$100,000	(a) Cash	\$100,000
(b) Accounts receivable	\$100,000	(b) Accounts payable	\$100,000
(c) Other assets	\$100,000	(c) Other liabilities	\$100,000
<u>Total</u>	<u>\$300,000</u>	<u>Total</u>	<u>\$300,000</u>



## CHAPTER XXVII

### PROFIT AND LOSS STATEMENT

#### Defined

A Profit and Loss Statement is a report which tells how much profit or loss a business accumulated during the year and how it was made. Referring back to page 6 in the chapter "Information Desired", it is seen that this is one of the two things aimed for in keeping records.

#### Simple in Form

As compared to a merchant or the average manufacturer, the Builder's statement will be comparatively simple. The Statement will be divided into three sections.

#### Profit on Contracts

The first section will list all Jobs showing a profit; stating the Job name and number and the amount of the profit. Details of each individual Job will not be shown directly on the Statement, but will be attached to it in the form of an exhibit. The exhibit may be a copy of the final report of the Job, showing estimated cost, actual cost and actual profit. Reference to these exhibits will be made on the statement.

#### Losses on Contracts

The second section will be a list of all Jobs on which a loss was suffered. Supporting exhibits will be used for these Jobs as well as for the Jobs listed in the first section.

The difference between the second and first section will be shown





as "Net Profit on All Contracts".

Other Incomes

The third section will list any miscellaneous incomes, the total of which will be added to the "Net Profit on All Contracts". The final figure will be shown on the last line and will be known as the "Net Profit".

Income Tax

If desired, a fourth section might be added to separate the "Net Profit" into two parts; part one showing the amount of the net profit due the Government on account of Income Tax, and the second part being the remainder which is the "Net Profit" after allowance for Federal Income Tax.

An illustration of a Profit and Loss Statement:

(see next page)





## Patrick J. Stineford - General Contractor

Brownville Junction, Maine

PROFIT AND LOSS STATEMENT  
for year ending  
December 31, 1930

Profit on Jobs

Job #2	Louis Stevenson (Exhibit B)		\$300.00	
" #3	Charles Adams	" C	400.00	
" #4	William Tessman #1	" D	700.00	
" #5	Charles Bergman	" E	600.00	
" #7	Stewart Whitney	" G	600.00	
" #8	Sam Rosenerg	" H	900.00	
" #9	William Tessman #2	" I	300.00	\$3,800.00

Losses on Jobs

Job #1	Clarence Stevens	" A	655.00	
" #6	Ernest Proudman	" F	15.00	<u>670.00</u>

Net Profit on All Contracts \$3,130.00

Add

Miscellaneous Income		
Interest Income	14.00	
Cash Discount Received	126.00	
Miscellaneous Income	48.00	<u>188.00</u>

NET PROFIT \$ 3,318.00





## CHAPTER XXVIII

## IMPROVED BALANCE SHEET

The Balance Sheet has been discussed in almost every chapter, but nothing has been said about the order in which the various items should appear. When similar assets and liabilities are grouped together, the Statement will be of greater value.

The following is a logical grouping for a Builder:

Current Assets	Current Liabilities
Jobs in Construction	Loans on Jobs
Fixed Assets	Fixed Liabilities
	Capital

The Groups Defined

**Current Assets:** Current Assets are cash and other assets which will normally be converted into cash.

**Current Liabilities:** Current Liabilities are those which have to be met comparatively soon after the date of the Balance Sheet. Accountants are generally agreed that any liability due within one year shall be classified as a current liability, otherwise as a fixed liability. Current liabilities are, or should be, paid from the current assets, if possible.

**Jobs in Construction:** These items represent the accumulated costs of the various Jobs as at the date of the Balance Sheet.

**Loans on Jobs:** These are loans obtained for the purpose of financing the construction of the building. They are usually arranged for before the beginning of the job and are made as the Job progresses.

EXHIBIT

EXHIBIT

The balance sheet has been prepared in full every year.  
but not less than once a year in which the balance sheet  
is prepared. The balance sheet and the balance sheet  
other, the balance sheet will be of great value.

The following is a list of the balance sheet:

Current Assets	Current Assets
Fixed Assets	Fixed Assets
Other Assets	Other Assets
Liabilities	Liabilities
Equity	Equity

EXHIBIT

Current Assets: Current Assets and other assets which  
will normally be converted into cash.  
Current Liabilities: Current Liabilities and other liabilities  
to which the balance sheet is due at the end of the year.  
Fixed Assets: Fixed Assets and other assets which are  
not normally converted into cash. These are usually  
your assets as shown in the balance sheet, including a list  
of the assets. Current Liabilities are the liabilities which  
current assets, if necessary.

This is the balance sheet. It is the balance sheet.

There are two types of balance sheet, the balance sheet.

There are two types of balance sheet, the balance sheet.

There are two types of balance sheet, the balance sheet.

There are two types of balance sheet, the balance sheet.



The difference between the total of Jobs in Construction and Loans on Jobs represents the contractor's equity in the Job.

**Fixed Assets:** Fixed Assets are those used in the conduct of the business such as equipment, truck tools, or building. They are not held with the intention of sale and are usually kept until they are worn out, when they are replaced by similar assets.

**Fixed Liabilities:** Fixed Liabilities are those debts which do not mature for at least a year. They are usually loans which have been made to enable the contractor to finance his business. More often than not they are secured by mortgages.

Practically all accounts will fit into one of the above groups, but if there is an account which does not seem to find a place in any one of these groups, it should be shown by itself in the Balance Sheet.

#### Ratio between Current Assets and Current Liabilities

Bankers are interested in knowing the ratio existing between current assets and current liabilities, and for that reason the Statement should show that ratio. To do this, list all current assets and show the total using the Caption "Total Current Assets". Next list the current liabilities on the other side of the Statement and, on the same line that "Total Current Assets" is written, show also "Total Current Liabilities".

#### Jobs in Construction and Loans on Jobs

The amounts shown in the various Job Accounts will next be listed and the total shown in the column to the right. Any Liabilities that are not to be paid until completion of a contract are then listed directly opposite on the liability side of the statement.

The difference between the total of John's contributions and those of  
John to represent the contribution of John in the job.

Final answer: Final answer and those used in the context of the  
business such as equipment, stock, coins, or building. They are not  
held with the intention of sale and are usually held until they are  
sold, when they are valued by similar assets.

Final answer: Final answer and those used in the context of the  
not matter for at least a year. They are usually held until they have  
been made to enable the taxpayer to finance his business. There  
often seem not to be any other purposes.

Finally all amounts will be taken one of the above, those  
but if there is an amount which does not seem to fit a particular  
one of those groups, it will be known by itself in the balance sheet.

#### Final answer and those used in the context of the

Business and investment in the business and those used in the  
current assets and current liabilities, and for those used in the  
non-current assets and non-current liabilities. It is also for those used in the  
non-current assets and non-current liabilities. It is also for those used in the  
non-current liabilities on the other side of the balance sheet, in the  
non-current assets and non-current liabilities, in which, now also "Final  
answer and those used in the context of the

#### Final answer and those used in the context of the

The answer shown in the various top accounts will now be listed  
and the total shown in the column on the right. The liabilities that  
are not to be paid until the end of a certain time period  
directly against the liability side of the balance sheet.



### Fixed Assets and Fixed Liabilities

Fixed Assets and Fixed Liabilities are shown in a manner similar to the other two groups.

### Capital

The worth of the business is shown in two items under the caption "Capital". The Capital at the beginning of the year is shown and, to it is added the profit for the period. The total of the two is then shown as Total Capital in the same column as the total of the two groups of liabilities.

On the next line is written "Total Liabilities and Capital" and the amount shown in the right hand column. On the same line on the asset side, write "Total Assets" and the amount in the asset column that shows the totals for the three groups of assets.

Rulings will be made as illustrated on the next page. The Balance Sheet of Sam Moberg, General Contractor of Sherborn, Mass., is shown herewith. This statement is not given as the one and only form to be used. Many variations to this may be used to suit any firm's individual needs.

These events and their consequences are given in a manner which

is very clear and concise.

THE

The work of the author is given in the form of a series

of chapters. The first chapter is devoted to the history of the

United States from the first settlement to the present time.

The second chapter is devoted to the history of the United States

from the present time to the future.

The third chapter is devoted to the history of the United States

from the future to the present time. The fourth chapter is

devoted to the history of the United States from the present

time to the future. The fifth chapter is devoted to the

history of the United States from the future to the present

time. The sixth chapter is devoted to the history of the

United States from the present time to the future. The

seventh chapter is devoted to the history of the United States

from the future to the present time.



Sam Moberg

BALANCE SHEET

December 31, 1930

ASSETS

Current Assets  
 Cash \$ 1,100.00  
 Accounts Receivable 650.00  
 Notes Receivable 400.00  
 Materials 400.00

Total Current Assets

Jobs in Construction

Job #19 8,000.00  
 Job #27 150.00  
 Job #28 4,000.00  
 Job #31 200.00

Total Jobs in Construction

Fixed Assets

Truck 700.00  
 Cement Mixer 400.00  
 Misc. Tools 300.00  
 Land (118 W. Queen) 1,000.00  
 Building " St. ) 3,000.00

Total Fixed Assets

Total Assets

LIABILITIES & CAPITAL

Current Liabilities  
 Accounts Payable \$ 1,800.00  
 Wages Dye Employers

Total Current Liabilities

Loans on Jobs

Framingham Bank, Job #19 5,900.00  
 Framingham Bank, Job #28 2,500.00  
 Merchants Nat. Bk. " #31 400.00

Total Loans on Jobs

Fixed Liabilities

Note Payable 500.00  
 Mortgage Payable (118 W. Queen St.) 2,500.00

Total Fixed Liabilities

Capital

January 1, 1930 5,800.00  
 Net Profit for year 1,750.00

Total Capital

Total Liabilities & Capital

\$21,300.00



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1931

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